You should read the following discussion and analysis in conjunction with our audited consolidated financial statements as of and for the years ended December 31, 2019, 2020 and 2021 and for the six months ended June 30, 2022 including the notes thereto, included in the Accountant's Report in Appendix I. Our consolidated financial information has been prepared in accordance with U.S. GAAP. For reconciliation statements setting out the financial effect of any material differences between our financial statements prepared in accordance with U.S. GAAP and financial statements prepared using IFRS, see "Financial Information—Reconciliation Between U.S. GAAP and IFRS" and Note 24 to the Accountant's Report in Appendix I.

The Stock Exchange has granted us a waiver from strict compliance with the requirements of Rules 4.10, 4.11, 19.13 and 19.25A of, and note 2.1 to paragraph 2 of the Appendix 16 to, the Listing Rules, to allow us to prepare the Accountant's Report in Appendix I in conformity with U.S. GAAP, provided that a reconciliation of such financial information in accordance with IFRS is included in this document. In addition, the Stock Exchange has allowed us to prepare our accounts in accordance with U.S. GAAP after listing for the purposes of our financial reporting required under the Listing Rules, subject to the condition that, among others, our annual consolidated financial statements should include a reconciliation of our financial information in accordance with IFRS in the form and substance adopted in Appendix I to this document.

The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. These statements are based on our assumptions and analyses in light of our experience and perception of historical trends, current conditions, and expected future developments, as well as other factors that we believe are appropriate under the circumstances. However, our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and elsewhere in this document. For further details, see "Forward-Looking Statements."

OVERVIEW

We are the largest online recruitment platform in China in terms of average MAU and online recruitment revenue in 2021 and the six months ended June 30, 2022. We have pioneered the "direct recruitment model" that captures the essence of real-world recruitment scenario through innovatively embedding two-way communication and two-sided recommendation into the online recruitment process on a mobile-native platform. We were the first in China to adopt the direct recruitment model for the online recruitment industry. Our innovative business model is developed on an approach that is fundamentally different from other existing business models at the time of its inception and has since transformed the online recruitment industry and user behavior in China.

We provide services for improving recruitment and job hunting efficiency to both enterprise users and job seekers, generating most of our revenue from paid services offered to enterprise users. For enterprise users, we offer direct recruitment services that allow them to post jobs and communicate with job seekers, which can be free or paid based on an innovative connection-oriented monetization strategy, supplemented by paid value-added tools to further enhance their recruitment efficiency as part of our overall recruitment services to the enterprise users. For job seekers, we offer job seeking services to communicate with employers for free and paid value-added tools to help job seekers better prepare for their job hunt and assess their candidacy. Our innovative connection-oriented monetization strategy well complements our direct recruitment model and effectively incentives us to promote interaction and connection between enterprise users and job seekers.

Selling and marketing expenses comprise a substantial portion of our operating expenses, consisting primarily of advertising expenses and payroll and other employee-related expenses. To promote our brand image, we have launched various marketing initiatives and acquired users through a variety of marketing channels, including marketing campaigns, TV commercials and outdoor advertisements. We also acquire users through online traffic acquisition, such as those that enhance our exposure on social media and priority in search results in app stores and search engines. In addition, we incurred advertising expenses to manage public relations for pro bono events we organized or participated.

During the Track Record Period, we achieved significant business growth. Our revenues increased by 94.7% from RMB998.7 million in 2019 to RMB1.9 billion in 2020 and further increased by 119.0% to RMB4.3 billion (US$635.9 million) in 2021. We recorded revenues of RMB2.3 billion (US$336.0 million) in the six months ended June 30, 2022, representing an increase of 15.0% from RMB2.0 billion in the six months ended June 30, 2021. We recorded net loss of RMB502.1 million, RMB941.9 million and RMB1.1 billion (US$159.9 million) in 2019, 2020 and 2021, respectively. In the six months ended June 30, 2022, we recorded net income of RMB80.3 million (US$12.0 million), compared to net loss of RMB1.6 billion in the six months ended June 30, 2021. Our adjusted net loss (non-GAAP financial measure) was RMB467.8 million and RMB284.7 million in 2019 and 2020, respectively. We recorded adjusted net income (non-GAAP financial measure) of RMB852.6 million (US$127.3 million) in 2021. In the six months ended June 30, 2022, we recorded adjusted net income (non-GAAP financial measure) of RMB363.4 million (US$54.3 million), representing an increase of 205.6% from RMB118.9 million in the six months ended June 30, 2021. Our operating cash outflow was RMB105.7 million in 2019. Our operating cash flow turned positive and reached RMB395.9 million in 2020, RMB1.6 billion (US$245.1 million) in 2021 and RMB480.9 million (US$71.8 million) in the six months ended June 30, 2022. For discussions of our adjusted net income/(loss) (non-GAAP financial measure) and reconciliation of net income/(loss) to adjusted net income/(loss) (non-GAAP financial measure), see "—Non-GAAP Financial Measure" for details.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business and results of operations are affected by a number of general factors that impact China's online recruitment service market, including, among others:

- China's overall economic growth and development, along with its structural transformation into a service-based and technology-driven economy;
- greater challenges in hiring leading to the increasing adoption of recruitment services;
- digitalization of the recruitment industry;
- the emergence of the direct recruitment model;
- growth of the blue-collar sector;
- the high growth potential in online penetration among employers, in particular Bosses;
- competitive landscape of China's online recruitment service industry and our market position therein; and
- government policies and regulations affecting China's internet industry as well as online recruitment service industry.

Unfavorable changes in any of these general conditions could negatively impact demand for our services and materially and adversely affect our results of operations. While our business is influenced by these general factors, our results of operations are more directly affected by the following company-specific factors.

Our ability to expand our large and active user base and enhance user engagement

A large and active user base is the core reason why enterprise users and job seekers are attracted to and continue to use our online recruitment platform, as enterprise users primarily look for a large talent pool to recruit from and job seekers value access to a multitude of actively hiring employers when using recruitment services. We believe it's important to grow our MAU, which we view as a key indicator of the size of our active user base, in order to support our business development. Our average MAU grew by 73.2% from 11.5 million in 2019 to 19.8 million in 2020, and further grew by 36.9% from 19.8 million in 2020 to 27.1 million in 2021. Our average MAU reached 25.9 million in the six months ended June 30, 2022, compared to an average MAU of 27.7 million in the six months ended June 30, 2021. Whether we can continue to grow our MAU mainly depends on our ability to provide high-quality user experience. To this end, we will continue to focus on providing a personalized user experience through enhancing our big data technology capabilities that power the recommendation engine, offering more efficient and flexible communication methods for our users, and improving the reliability of our online recruitment platform. Pursuant to an announcement posted by the CAC on July 5, 2021 relating to the cybersecurity review, our BOSS Zhipin app was required to suspend new user registration in China to cooperate with the cybersecurity review and prevent the expansion of risks. As approved by the Cybersecurity Review Office of the CAC, we have recommenced new user registration on our BOSS Zhipin app, effective from June 29, 2022.

Our acquisition of paid enterprise customers

Growth in the number of paid enterprise customers is a key driver of our revenue growth, as most of our revenues come from providing online recruitment services to paid enterprise customers. The continued growth of our business therefore depends on our acquisition of paid enterprise customers. Our paid enterprise customers reached 3.8 million in the twelve months ended June 30, 2022. In order to improve our acquisition of paid enterprise customers, we will continue to focus our resources on maintaining relationships with existing enterprise users, improving service quality, converting free enterprise users and their companies to paid enterprise customers, exploring new services, features and functionalities responsive to user needs, promoting awareness of our brands, and marketing our services to a wider user group and in more geographical markets.

Our ability to expand our services to existing paid enterprise customers

We believe that there is a significant opportunity for cross selling more of our online recruitment services to our existing paid enterprise customers. Among our paid enterprise customers, those who contributed revenues of RMB5,000 or more to us in a twelve-month period ended on the end of a given period accounted for the majority of our revenue source during the Track Record Period. Paid enterprise customers who contributed RMB5,000 or more, but less than RMB50,000 of revenues to us in a twelve-month period ended on the end of a given period, or mid-sized accounts, contributed 36.4%, 35.8%, 35.5% and 40.5% of our total revenues in 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively. In addition, paid enterprise customers who contributed RMB50,000 or more of revenues to us in a twelve-month period ended on the end of a given period, or key accounts, contributed 15.6%, 17.0%, 21.8% and 23.0% of our total revenues in 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively. We value key accounts because they typically are large enterprises with steady demand for our online recruitment services and a stable recruiting budget. The number of key accounts increased by 92.9% from 970 in 2019 to 1,871 in 2020 and further increased by 155.4% to 4,778 in 2021. We recorded 5,805 key accounts in the twelve months ended June 30, 2022, representing an increase of 85.0% from 3,137 in the twelve months ended June 30, 2021.

The consistent revenue contribution of mid-sized accounts and key accounts speaks to the importance of expanding our services to existing paid enterprise customers, which will increase their spending and move more of our paid enterprise customers into the mid-sized and key account groups. To expand our services to existing paid enterprise customers, we plan to introduce new service offerings, better educate existing paid enterprise customers about the value of additional services, and recommend more customized services to each paid enterprise customer based on analysis of its historical hiring behaviors.

Our ability to promote our brands and market our services more effectively

Our investment in branding, marketing and promotional activities contributes to our user acquisition, and whether such investment is cost-effective has a significant impact on our results of operations. To achieve maximum return for our branding and marketing investments, we set and adjust our branding and marketing strategies based on data analytics of factors such as occupational structure, average income of target demographics, and characteristics of different marketing channels. Our sales and marketing expenses represented 91.8%, 69.3%, 45.6% and 41.0% of our revenues in 2019, 2020 and 2021 and the six months ended June 30, 2022, respectively. The declining proportion of our sales and marketing expenses to revenues signifies higher efficiency of our branding, marketing and promotional activities. We will need to continue to monitor and manage our sales and marketing expenses if we are to improve profitability in the future.

Our ability to enhance our operating efficiency

Our results of operations are further affected by our operating efficiency in aspects other than sales and marketing, as measured by our total operating cost and expenses excluding sales and marketing expenses as a percentage of our revenues. Certain items of our operating cost and expenses, including our research and development expenses, have trended downwards as a percentage of our revenues from 2019 to 2021, especially after excluding share-based compensation expenses. As our business grows further, we expect to improve the efficiency and utilization of our personnel, and leverage our scale to achieve greater operating leverage.

BASIS OF PREPARATION

Our consolidated financial statements have been prepared in accordance with U.S. GAAP. Principal accounting policies followed by us in the preparation of the accompanying consolidated financial statements are summarized below.

CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT JUDGMENTS AND ESTIMATES

An accounting policy is considered critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time such estimate is made, and if different accounting estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial statements.

The preparation of our consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, costs and expenses, and related disclosures. We base our estimates on historical experience and on various other assumptions believed to be applicable and reasonable under the circumstances. Actual results could differ from these estimates. These estimates may change as new events occur, as additional information is obtained and as our operating environment changes. On an on-going basis, we evaluate our estimates and may make changes accordingly.

The following descriptions of critical accounting policies, judgments and estimates should be read in conjunction with our consolidated financial statements and other disclosures included in this document. When reviewing our financial statements, you should consider (i) our selection of critical accounting policies, (ii) the judgments and other uncertainties affecting the application of such policies and (iii) the sensitivity of reported results to changes in conditions and assumptions.

Revenue Recognition

We accounted for revenue under ASC 606, *Revenue from Contracts with Customers*, and all periods have been presented under ASC 606. Consistent with the criteria of ASC 606, we recognize revenue to depict the transfer of promised services to customers in an amount that reflects the consideration to which we expect to receive in exchange for those services.

To achieve that core principle, we apply the five steps defined under ASC 606: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) a performance obligation is satisfied.

According to ASC 606, revenue is recognized net of VAT when or as the control of services is transferred to a customer. Depending on the terms of the contract, control of services may be transferred over time or at a point in time. Control of services is transferred over time if we: (i) provide all of the benefits received and consumed simultaneously by the customer; (ii) create and enhance an asset that the customer controls as we perform; or (iii) do not create an asset with an alternative use to us and we have an enforceable right to payment for performance completed to date. If control of services is transferred over time, revenue is recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the customer obtains control of the services.

Online recruitment services to enterprise customers

We provide online recruitment services carrying different kinds of features to enterprise customers, including direct recruitment services such as job postings and value-added tools such as bulk invite sending, which could be purchased as a part of subscription packages or on a standalone basis.

Based on the pattern by which we provide services and how enterprise customers benefit from services, these services can be divided into two categories in terms of revenue recognition: (i) services over a particular subscription period, which provide enterprise customers certain rights during a particular subscription period; for example, paid job postings allow enterprise customers to present certain job positions, receive job seeker recommendations, browse the mini-resume of and chat with a certain number of job seekers in its platform during the subscription period; and (ii) services with definite and limited number of usages within an expiration period, such as bulk invite sending and advanced filer. Accordingly, we recognize our revenues from online recruitment services either over time or at a point in time as following:

- For services over a particular subscription period, we have a stand-ready obligation to deliver the corresponding services on a when-and-if-available basis during the subscription period and enterprise customers simultaneously and continuously receive and consume the benefits as we provide the services throughout the subscription period. Therefore, a time-based measure of progress best reflects the satisfaction of the performance obligations and we recognize revenues on a straight-line basis over the subscription period.

- For services with definite and limited number of usages within an expiration period, upon the delivery of the individual services, we satisfy our performance obligations and enterprise customers benefit from our performance obligations, and therefore revenues are recognized at a point in time; if these services are unused within the expiration period, we recognize the relevant revenues when they expire.

Other services

Other services mainly represent paid value-added tools offered to job seekers such as increased exposure of resume and candidate competitive analysis.

Arrangements with multiple performance obligations

Multiple performance obligations exist when enterprise customers purchase subscription packages which include an array of services. For those services included in subscription packages, the selling prices are consistently made references to the standalone selling prices when sold separately. We allocate the transaction price to each performance obligation based on the relative standalone selling price, considering bulk-sale price discounts offered to certain enterprise customers where applicable.

Deferred revenue

We record deferred revenue when we receive customers' payments in advance of transferring control of services. Substantially all deferred revenue recorded are expected to be recognized as revenues in the next twelve months.

Remaining performance obligations

Remaining performance obligations represent the amount of contracted future revenue not yet recognized as the amounts relate to undelivered performance obligations. Substantially all of our contracts with customers are within one year in duration. As such, we have elected to apply the practical expedient which allows an entity to exclude disclosures about its remaining performance obligations if the performance obligation is part of a contract that has an original expected duration of one year or less.

Fair Value of Share Options

We granted share options to our employees, directors and consultants. Share-based awards with service conditions only are measured at the grant-date fair value of the awards and recognized as expenses using the straight-line method over the requisite service period. Share-based awards that are subject to both service conditions and the occurrence of an IPO or change of control as a performance condition, are measured at the grant-date fair value and cumulative share-based compensation expenses for the awards that have satisfied the service condition were recorded upon the completion of our IPO in the United States in June 2021. We used a binomial option pricing model to determine the fair value of the awarded share options. Significant estimates and assumptions, including fair value of ordinary shares on the grant date, risk-free interest rate, expected term, expected dividend yield, expected volatility and expected early exercise multiple are made.

Key assumptions are set forth as follows:

- Fair value of ordinary shares on the grant date: The fair value of the ordinary shares prior to our IPO in the United States was estimated based on the following assumptions:

    - Weighted average cost of capital, or WACC: The WACCs were determined in consideration of factors including risk-free rate, comparative industry risk, equity risk premium, company size and non-systematic risk factors.

    - Discount for lack of marketability, or DLOM: DLOM was quantified by the protective put options mode. Under this option-pricing method, which assumed that the put option is struck at the price of the stock before the privately held shares can be sold, the cost of the put option was considered as a basis to determine the DLOM.

- Risk-free interest rate: The risk-free rate was estimated based on the market yield of U.S. Treasury with a maturity life that corresponds with the expected term.

- Expected term: Expected term is the contractual life of the options.

- Expected dividend yield: We have no history of paying cash dividends on our ordinary shares and do not expect to pay dividends in the foreseeable future.

- Expected volatility: Expected volatility was estimated based on the average volatility of comparable companies in the same industry. The volatility of each comparable company was based on the historical daily stock prices for a period with length commensurate to the remaining maturity life of the share options.

- Expected early exercise multiple: Expected early exercise multiple was estimated by reference to a widely accepted academic research publication.

Mezzanine Equity

Mezzanine equity represents the Series A, Series B, Series C, Series D, Series E and Series F convertible redeemable preferred shares (collectively, the "Preferred Shares") issued by us. Preferred Shares are contingently redeemable upon the occurrence of an event that is outside of our control. Therefore, we classify the Preferred Shares as mezzanine equity.

Upon the completion of the IPO in the United States in June 2021, all of the issued and outstanding Preferred Shares were automatically converted into Class A Ordinary Shares on a one-for-one basis.

RESULTS OF OPERATIONS

The following table sets forth a summary of our consolidated results of operations, both in absolute amount and as a percentage of our total revenues for the periods presented. This information should be read together with the Accountant's Report in Appendix I of this document. The results of operations in any particular period are not necessarily indicative of our future trends.

	For the Year Ended December 31,							For the Six Months Ended June 30,				
	2019		2020		2021			2021		2022		
	RMB	%	RMB	%	RMB	US$	%	RMB	%	RMB	US$	%
								(unaudited)				
	(in thousands, except for percentages)											
Revenues												
Online recruitment services to enterprise customers	986,859	98.8	1,927,178	99.1	4,219,026	629,884	99.1	1,939,919	99.1	2,227,184	332,510	99.0
Others	11,861	1.2	17,181	0.9	40,102	5,987	0.9	16,798	0.9	23,040	3,440	1.0
Total revenues	**998,720**	**100.0**	**1,944,359**	**100.0**	**4,259,128**	**635,871**	**100.0**	**1,956,717**	**100.0**	**2,250,224**	**335,950**	**100.0**
Operating cost and expenses												
Cost of revenues(1)	(137,812)	(13.8)	(240,211)	(12.4)	(554,648)	(82,807)	(13.0)	(250,029)	(12.8)	(351,578)	(52,489)	(15.6)
Sales and marketing expenses(1)	(916,832)	(91.8)	(1,347,532)	(69.3)	(1,942,670)	(290,033)	(45.6)	(1,152,780)	(58.9)	(921,900)	(137,636)	(41.0)
Research and development expenses(1)	(325,569)	(32.6)	(513,362)	(26.4)	(821,984)	(122,719)	(19.3)	(413,728)	(21.1)	(598,425)	(89,343)	(26.6)
General and administrative expenses(1)	(132,999)	(13.3)	(797,008)	(41.0)	(1,991,123)	(297,267)	(46.7)	(1,748,612)	(89.4)	(316,035)	(47,183)	(14.0)
Total operating cost and expenses	**(1,513,212)**	**(151.5)**	**(2,898,113)**	**(149.1)**	**(5,310,425)**	**(792,826)**	**(124.6)**	**(3,565,149)**	**(182.2)**	**(2,187,938)**	**(326,651)**	**(97.2)**
Other operating income, net	2,573	0.3	8,849	0.5	14,977	2,236	0.4	7,657	0.4	10,743	1,604	0.5
(Loss)/Income from operations	**(511,919)**	**(51.2)**	**(944,905)**	**(48.6)**	**(1,036,320)**	**(154,719)**	**(24.2)**	**(1,600,775)**	**(81.8)**	**73,029**	**10,903**	**3.3**
Investment income	9,718	1.0	9,095	0.5	24,744	3,694	0.6	8,629	0.4	17,075	2,549	0.8
Financial income, net	145	0.0	3,098	0.2	9,735	1,453	0.2	4,017	0.2	24,185	3,611	1.1
Foreign exchange gain/(loss)	1	0.0	(5,074)	(0.3)	(1,961)	(293)	(0.0)	(586)	(0.0)	4,694	701	0.2
Other expenses, net	–	–	(4,109)	(0.2)	(7,745)	(1,156)	(0.2)	(1,597)	(0.1)	(24,539)	(3,664)	(1.2)
(Loss)/Income before income tax expense	**(502,055)**	**(50.2)**	**(941,895)**	**(48.4)**	**(1,011,547)**	**(151,021)**	**(23.6)**	**(1,590,312)**	**(81.3)**	**94,444**	**14,100**	**4.2**
Income tax expense	–	–	–	–	(59,527)	(8,887)	(1.4)	–	–	(14,123)	(2,109)	(0.6)
Net (loss)/income	**(502,055)**	**(50.2)**	**(941,895)**	**(48.4)**	**(1,071,074)**	**(159,908)**	**(25.0)**	**(1,590,312)**	**(81.3)**	**80,321**	**11,991**	**3.6**

Note:

(1) Share-based compensation expenses were allocated as follows:

	For the Year Ended December 31,				For the Six Months Ended June 30,		
	2019	2020	2021		2021	2022	
	RMB	RMB	RMB	US$	RMB	RMB	US$
					(unaudited)		
	(in thousands)						
Share-based compensation expenses							
Cost of revenues	944	1,920	31,467	4,698	13,137	16,113	2,406
Sales and marketing expenses	8,443	21,473	73,733	11,008	26,922	63,817	9,528
Research and development expenses	13,595	30,883	137,820	20,576	58,633	115,117	17,187
General and administrative expenses	11,268	602,960	1,680,626	250,911	1,610,559	87,999	13,138
Total	**34,250**	**657,236**	**1,923,646**	**287,193**	**1,709,251**	**283,046**	**42,259**

NON-GAAP FINANCIAL MEASURE

In addition to net income/(loss), we also use adjusted net income/(loss) (non-GAAP financial measure), to evaluate our business. We define adjusted net income/(loss) (non-GAAP financial measure) as net income/(loss) excluding share-based compensation expenses. Share-based compensation expenses are non-cash in nature and do not result in cash outflow, and the adjustment had been made during the Track Record Period for consistency.

We have included this non-GAAP financial measure in this document because it is a key measure used by our management to evaluate our operating performance, as it facilitates comparisons of operating performance from period to period. Accordingly, we believe that it provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management team and board of directors do. Our calculation of the non-GAAP financial measure may differ from similarly-titled non-GAAP measures, if any, reported by our peer companies. It should not be considered in isolation from, or as a substitute for, our financial information prepared in accordance with U.S. GAAP.

The table below sets forth a reconciliation of our net income/(loss) to adjusted net income/(loss) (non-GAAP financial measure) for the periods indicated:

	For the Year Ended December 31,				For the Six Months Ended June 30,		
	2019	2020	2021		2021	2022	
	RMB	RMB	RMB	US$	RMB	RMB	US$
					(unaudited)		
	(in thousands)						
Net (loss)/income	**(502,055)**	**(941,895)**	**(1,071,074)**	**(159,908)**	**(1,590,312)**	**80,321**	**11,991**
Minus:							
Share-based compensation expenses	(34,250)	(657,236)	(1,923,646)	(287,193)	(1,709,251)	(283,046)	(42,259)
Adjusted net (loss)/income (non-GAAP financial measure)	**(467,805)**	**(284,659)**	**852,572**	**127,285**	**118,939**	**363,367**	**54,250**

KEY COMPONENTS OF RESULTS OF OPERATIONS

Revenues

We derive most of our revenues from paid enterprise customers on our online recruitment platform. We provide online recruitment services to enterprise users that allow them to access and interact with job seekers and better manage their recruitment process. The following table sets forth the components of our revenues by amounts and percentages of our total revenues for the periods presented.

	For the Year Ended December 31,							For the Six Months Ended June 30,				
	2019		2020		2021			2021		2022		
	RMB	%	RMB	%	RMB	US$	%	RMB	%	RMB	US$	%
								(unaudited)				
	(in thousands, except for percentages)											
Revenues												
Online recruitment services to enterprise customers	986,859	98.8	1,927,178	99.1	4,219,026	629,884	99.1	1,939,919	99.1	2,227,184	332,510	99.0
Others	11,861	1.2	17,181	0.9	40,102	5,987	0.9	16,798	0.9	23,040	3,440	1.0
Total revenues	**998,720**	**100.0**	**1,944,359**	**100.0**	**4,259,128**	**635,871**	**100.0**	**1,956,717**	**100.0**	**2,250,224**	**335,950**	**100.0**

Operating Cost and Expenses

Our operating costs and expenses consist of cost of revenues, sales and marketing expenses, research and development expenses, and general and administrative expenses.

Cost of revenues. Our cost of revenues primarily consists of third-party payment processing cost, payroll and other employee-related expenses, server and bandwidth service cost and server depreciation. The following table sets forth the components of our cost of revenues by amounts and as percentages of our revenues for the periods presented.

	For the Year Ended December 31,							For the Six Months Ended June 30,				
	2019		2020		2021			2021		2022		
	RMB	%	RMB	%	RMB	US$	%	RMB	%	RMB	US$	%
								(unaudited)				
	(in thousands, except for percentages)											
Cost of revenues												
Third-party payment processing cost	56,069	5.6	96,347	5.0	206,882	30,887	4.9	109,393	5.6	94,976	14,180	4.2
Payroll and other employee-related expenses	31,460	3.2	52,152	2.7	171,868	25,659	4.0	61,250	3.1	132,451	19,774	5.9
Server and bandwidth service cost	21,600	2.2	37,894	1.9	69,466	10,371	1.6	29,919	1.5	48,793	7,285	2.2
Depreciation and amortization	5,993	0.6	21,631	1.1	45,809	6,839	1.1	19,313	1.0	39,918	5,960	1.8
Others	22,690	2.2	32,187	1.7	60,623	9,051	1.4	30,154	1.6	35,440	5,290	1.5
Total	**137,812**	**13.8**	**240,211**	**12.4**	**554,648**	**82,807**	**13.0**	**250,029**	**12.8**	**351,578**	**52,489**	**15.6**

The third-party payment processing cost represents fees charged by the third-party payment platforms mainly for the payments from our small-sized accounts who pay for our services through third-party payment platforms, while key accounts and mid-sized accounts mainly make payments via direct bank transfers. From 2019 to 2021, the third-party payment processing cost increased in absolute amount with the increase of revenues from small-sized accounts, while the percentage as of total revenues decreased from 5.6% to 4.9%, mainly attributable to the reason that the increase of revenues from small-sized accounts was less significant compared to the increase of total revenues. For the six months ended June 30, 2022, as compared with the same period of 2021, the third-party payment processing cost and its percentage as of total revenues decreased, mainly due to the decrease in revenues from small-sized accounts resulting from the suspension of new user registration from July 2021 while our total revenues increased. The payroll and other employee-related expenses increased from 2019 to 2021 in line with the increased headcount, particularly in security and operation personnel. We expect our cost of revenues to continue to increase in line with our business growth.

Sales and marketing expenses. Our sales and marketing expenses primarily consist of (i) advertising expenses, including expenses relating to branding activities and online traffic acquisition, (ii) payroll and other employee-related expenses for our sales and marketing staff, and (iii) other miscellaneous expenses for our sales functions. Our advertising expenses are mainly incurred to (i) promote our brands through marketing campaigns, TV commercials and outdoor advertisements, (ii) purchase online traffic acquisition services, such as those that enhance our exposure on social media and priority in search results in app stores and search engines, and (iii) manage public relations for pro bono events. The following table sets forth the components of our sales and marketing expenses by amounts and as percentages of our revenues for the periods presented.

	For the Year Ended December 31,							For the Six Months Ended June 30,				
	2019		2020		2021			2021		2022		
	RMB	%	RMB	%	RMB	US$	%	RMB	%	RMB	US$	%
								(unaudited)				
	(in thousands, except for percentages)											
Sales and marketing expenses												
Advertising expenses	538,940	54.0	812,415	41.8	997,650	148,945	23.4	723,724	37.0	348,594	52,044	15.5
Payroll and other employee-related expenses	335,912	33.6	470,644	24.2	823,399	122,930	19.3	375,148	19.2	509,057	76,000	22.6
Others	41,980	4.2	64,473	3.3	121,621	18,158	2.9	53,908	2.7	64,249	9,592	2.9
Total	**916,832**	**91.8**	**1,347,532**	**69.3**	**1,942,670**	**290,033**	**45.6**	**1,152,780**	**58.9**	**921,900**	**137,636**	**41.0**

We expect our sales and marketing expenses to continue to increase in absolute amount in the foreseeable future as we plan to engage in more sales and marketing activities to attract users and further grow our business.

Research and development expenses. Our research and development expenses primarily consist of payroll and other employee-related expenses for our research and development staff. The following table sets forth the components of our research and development expenses by amounts and as percentages of our revenues for the periods presented.

	For the Year Ended December 31,							For the Six Months Ended June 30,				
	2019		2020		2021			2021		2022		
	RMB	%	RMB	%	RMB	US$	%	RMB	%	RMB	US$	%
								(unaudited)				
	(in thousands, except for percentages)											
Research and development expenses												
Payroll and other employee-related expenses	293,802	29.4	467,942	24.1	776,420	115,916	18.2	395,157	20.2	568,749	84,912	25.3
Others	31,767	3.2	45,420	2.3	45,564	6,803	1.1	18,571	0.9	29,676	4,431	1.3
Total	**325,569**	**32.6**	**513,362**	**26.4**	**821,984**	**122,719**	**19.3**	**413,728**	**21.1**	**598,425**	**89,343**	**26.6**

During the Track Record Period, the increase in our research and development expenses was primarily due to the expansion of our research and development team. In particular, we have increased the number of our front end developers and engineers that design and upgrade user interface to optimize users' interaction with our services. We also recruited more data engineers to continually improve and optimize our proprietary recommendation engine to deliver better and more accurate recommendation results. We expect our research and development expenses to continue to increase in absolute amount as we expand our research and development team and further enhance our technology capabilities.

General and administrative expenses. Our general and administrative expenses primarily consist of payroll and other employee-related expenses for our managerial and administrative staff. The following table sets forth the components of our general and administrative expenses by amounts and as percentages of our revenues for the periods presented.

	For the Year Ended December 31,							For the Six Months Ended June 30,				
	2019		2020		2021			2021		2022		
	RMB	%	RMB	%	RMB	US$	%	RMB	%	RMB	US$	%
								(unaudited)				
	(in thousands, except for percentages)											
General and administrative expenses												
Payroll and other employee-related expenses[1]	85,417	8.6	737,224	37.9	1,889,187	282,048	44.4	1,706,188	87.2	242,796	36,248	10.8
Others	47,582	4.7	59,784	3.1	101,936	15,219	2.3	42,424	2.2	73,239	10,935	3.2
Total	**132,999**	**13.3**	**797,008**	**41.0**	**1,991,123**	**297,267**	**46.7**	**1,748,612**	**89.4**	**316,035**	**47,183**	**14.0**

Note:

(1) In November 2020 and June 2021, our company granted 24,780,971 and 24,745,531 Class B Ordinary Shares to TECHWOLF LIMITED, and recorded RMB533.1 million and RMB1,506.4 million of share-based compensation expenses in general and administrative expenses upon the grant, respectively.

Excluding the impact of the one-off share-based compensation expenses in connection with the grant of Class B Ordinary Shares to TECHWOLF LIMITED, we expect our general and administrative expenses to continue to increase in absolute amount in the foreseeable future as we grow our business and incur increased staff related cost.

TAXATION

Cayman Islands

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains, or appreciation, and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to us levied by the government of the Cayman Islands except for stamp duties, which may be applicable on instruments executed in, or brought within the jurisdiction of, the Cayman Islands. In addition, the Cayman Islands does not impose withholding tax on dividend payments.

Hong Kong

Our subsidiary in Hong Kong is subject to 16.5% Hong Kong profit tax for its taxable income earned. Additionally, payments of dividends by our subsidiary in Hong Kong to our company are not subject to any Hong Kong withholding tax. No provision for Hong Kong profits tax was made as we had no estimated assessable profit that was subject to Hong Kong profits tax during 2019, 2020 and 2021 and the six months ended June 30, 2022.

PRC

Under the PRC Enterprise Income Tax Law effective from January 1, 2008, and amended on February 24, 2017 and December 29, 2018, our PRC subsidiaries and the VIE are subject to the statutory rate of 25%, subject to preferential tax treatments available to qualified enterprises as stipulated under PRC tax laws and regulations.

Enterprises that qualify as "high and new technology enterprises" are entitled to a preferential rate of 15% for three years. Enterprises that qualify as "small low-profit enterprises" are entitled to a preferential rate of 20%.

Beijing Huapin Borui Network Technology Co., Ltd., or the VIE, was certified as a "high and new technology enterprise" under the relevant PRC laws and regulations, and accordingly was eligible for a preferential tax rate of 15% in each of 2019, 2020 and 2021. The preferential tax treatment continues as long as an enterprise can retain its "high and new technology enterprise" status. Our WFOE was subject to an enterprise income tax rate of 20%, 25% and 25% in 2019, 2020 and 2021, respectively.

If our company in the Cayman Islands or any of our subsidiaries outside of China were deemed a "resident enterprise" under the PRC Enterprise Income Tax Law, it would be subject to enterprise income tax on its worldwide income at a rate of 25%. See "Risk Factors—Risks Relating to Doing Business in China—If we are classified as a PRC resident enterprise for PRC income tax purposes, such classification could result in unfavorable tax consequences to us and our non-PRC shareholders or ADS holders."

We are subject to VAT at a rate of approximately 3% for small-scale-VAT-payer entities or 6% for general-VAT-payer entities on the services and solutions we provide to our customers, less any deductible VAT we have already paid or borne in accordance with PRC law. We are also subject to surcharges on VAT payments in accordance with PRC law.

Pursuant to the PRC Enterprise Income Tax Law, a 5% or 10% withholding tax is levied on dividends declared to our intermediary holding company in Hong Kong from China effective from January 1, 2008. See "Risk Factors—Risks Relating to Doing Business in China—We may not be able to obtain certain benefits under relevant tax treaty on dividends paid by our PRC subsidiaries to us through our Hong Kong subsidiary."

PERIOD-TO-PERIOD COMPARISON OF RESULTS OF OPERATIONS

Six Months Ended June 30, 2022 Compared to Six Months Ended June 30, 2021

Revenues

Our revenues primarily come from online recruitment services provided to paid enterprise customers. Our revenues increased by 15.0% from RMB2.0 billion in the six months ended June 30, 2021 to RMB2.3 billion (US$336.0 million) in the six months ended June 30, 2022. This increase primarily resulted from our continued investment in enhancing our service capabilities. In particular, revenues from key accounts increased by 42.8% from RMB362.8 million in the six months ended June 30, 2021 to RMB517.9 million (US$77.3 million) in the six months ended June 30, 2022, and revenues from mid-sized accounts increased by 43.7% from RMB633.7 million in the six months ended June 30, 2021 to RMB910.8 million (US$136.0 million) in the six months ended June 30, 2022, partially offset by the decrease in revenues from other customers, which was historically driven by new user growth while our new user registration was suspended during most of the period. Our paid enterprise customers increased by 5.6% from 3.6 million in the twelve months ended June 30, 2021 to 3.8 million in the twelve months ended June 30, 2022, and our key accounts increased by 85.0% from 3,137 in the twelve months ended June 30, 2021 to 5,805 in the twelve months ended June 30, 2022.

Cost of revenues

Our cost of revenues increased by 40.6% from RMB250.0 million in the six months ended June 30, 2021 to RMB351.6 million (US$52.5 million) in the six months ended June 30, 2022. The increase was mainly attributable to (i) an increase of RMB71.2 million in payroll and other employee-related expenses with the increased headcount, particularly in security and operation personnel, (ii) an increase of RMB20.6 million in depreciation and amortization mainly related to servers, and (iii) an increase of RMB18.9 million in server and bandwidth service cost in line with our business growth, partially offset by a decrease of RMB14.4 million in third-party payment processing cost.

Sales and marketing expenses

Our sales and marketing expenses decreased by 20.0% from RMB1.2 billion in the six months ended June 30, 2021 to RMB921.9 million (US$137.6 million) in the six months ended June 30, 2022, primarily attributable to a decrease of RMB375.1 million in advertising expenses resulting from the marketing strategy to improve marketing efficiency taking into consideration of the suspension of new user registration, partially offset by an increase of RMB133.9 million in payroll and other employee-related expenses for our sales and marketing staff.

Research and development expenses

Our research and development expenses increased by 44.6% from RMB413.7 million in the six months ended June 30, 2021 to RMB598.4 million (US$89.3 million) in the six months ended June 30, 2022, which was mainly attributable to an increase of RMB173.6 million in payroll and other employee-related expenses due to increased headcount in research and development personnel and increased share-based compensation expenses.

General and administrative expenses

Our general and administrative expenses decreased by 81.9% from RMB1.7 billion in the six months ended June 30, 2021 to RMB316.0 million (US$47.2 million) in the six months ended June 30, 2022. This decrease was mainly attributable to the one-off share-based compensation expenses of RMB1,506.4 million recognized in the second quarter of 2021, related to the issuance of Class B Ordinary Shares to TECHWOLF LIMITED, partially offset by increased payroll and other employee-related expenses with increased headcount.

(Loss)/Income from operations

As a result of the foregoing, we recorded RMB73.0 million (US$10.9 million) of income from operations in the six months ended June 30, 2022, as compared to a loss from operations of RMB1.6 billion in the six months ended June 30, 2021.

Income tax expense

We accrued income tax expense of RMB14.1 million (US$2.1 million) in the six months ended June 30, 2022, as compared to that of nil in the six months ended June 30, 2021.

Net (loss)/income

We recorded net income of RMB80.3 million (US$12.0 million) in the six months ended June 30, 2022, as compared to a net loss of RMB1.6 billion in the six months ended June 30, 2021.

Year Ended December 31, 2021 Compared to Year Ended December 31, 2020

Revenues

Our revenues primarily come from online recruitment services provided to paid enterprise customers. Our revenues increased by 119.0% from RMB1.9 billion in 2020 to RMB4.3 billion (US$635.9 million) in 2021. In particular, revenues from key accounts increased by 180.6% from RMB330.8 million in 2020 to RMB928.4 million (US$138.6 million) in 2021, and revenues from mid-sized accounts increased by 117.4% from RMB696.3 million in 2020 to RMB1.5 billion (US$226.0 million) in 2021. This increase was primarily resulted from the rapid growth in our paid enterprise customer numbers following the expansion of our user base and continued investment in enhancing our service capabilities. Our paid enterprise customers increased by 81.8% from 2.2 million in 2020 to 4.0 million in 2021, and our key accounts increased by 155.4% from 1,871 in 2020 to 4,778 in 2021.

Cost of revenues

Our cost of revenues increased by 130.9% from RMB240.2 million in 2020 to RMB554.6 million (US$82.8 million) in 2021, primarily driven by (i) an increase of RMB110.5 million in third-party payment processing cost with increased transaction volume, (ii) an increase of RMB119.7 million in payroll and other employee-related expenses associated with the increased headcount, especially in security and operation personnel, and (iii) an increase of RMB31.6 million in server and bandwidth service cost, resulting from expanded user base and increased level of user engagement.

Sales and marketing expenses

Our sales and marketing expenses increased by 44.2% from RMB1.3 billion in 2020 to RMB1.9 billion (US$290.0 million) in 2021, primarily due to an increase of RMB352.8 million in payroll and other employee-related expenses as we expand and incentivize our sales and marketing staff and an increase of RMB185.2 million in advertising expenses due to enhanced brand advertising activities.

Research and development expenses

Our research and development expenses increased by 60.1% from RMB513.4 million in 2020 to RMB822.0 million (US$122.7 million) in 2021, which was mainly attributable to an increase of RMB308.5 million in payroll and other employee-related expenses due to increased headcount in research and development personnel as we continue to enhance investments in research and development talents and an increase in share-based compensation expenses.

General and administrative expenses

Our general and administrative expenses increased by 149.8% from RMB797.0 million in 2020 to RMB2.0 billion (US$297.3 million) in 2021, which was mainly attributable to the one-off share-based compensation expenses of RMB1,506.4 million recognized in 2021, related to the issuance of Class B Ordinary Shares to TECHWOLF LIMITED, and increased headcount in general and administrative personnel.

Loss from operations

As a result of the foregoing, we incurred RMB1.0 billion (US$154.7 million) of loss from operations in 2021, as compared to a loss from operations of RMB944.9 million in 2020.

Income tax expense

We accrued income tax expense of RMB59.5 million (US$8.9 million) in 2021. We did not pay any income tax or receive any income tax benefit in 2020.

Net loss

We recorded a net loss of RMB1.1 billion (US$159.9 million) in 2021, as compared to a net loss of RMB941.9 million in 2020.

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

Revenues

Our revenues primarily come from online recruitment services provided to paid enterprise customers. Our revenues increased by 94.7% from RMB998.7 million in 2019 to RMB1.9 billion in 2020. Particularly, revenues from mid-sized accounts increased by 91.7% from RMB363.3 million in 2019 to RMB696.3 million in 2020, while revenues from key accounts increased by 112.3% from RMB155.8 million to RMB330.8 million in the same periods. This increase was primarily due to the growth of our paid enterprise customers, which increased by 83.3% from 1.2 million in 2019 to 2.2 million in 2020. The number of our key accounts increased by 92.9% from 970 in 2019 to 1,871 in 2020.

Cost of revenues

Our cost of revenues increased by 74.3% from RMB137.8 million in 2019 to RMB240.2 million in 2020. This increase was mainly attributable to (i) an increase of RMB40.3 million in third-party payment processing cost with increased transaction volume, (ii) an increase of RMB20.7 million in payroll and other employee-related expenses with increased headcount, and (iii) an increase of RMB16.3 million in server and bandwidth service cost primarily driven by our growth in user base and increased level of user engagement.

Sales and marketing expenses

Our sales and marketing expenses increased by 47.0% from RMB916.8 million in 2019 to RMB1,347.5 million in 2020, primarily due to an increase of RMB273.5 million, or 50.7%, in advertising expenses and an increase of RMB134.7 million, or 40.1%, in payroll and other employee-related expenses for our sales and marketing staff, which were mainly due to our enhanced marketing efforts to acquire more active users.

Research and development expenses

Our research and development expenses increased by 57.7% from RMB325.6 million in 2019 to RMB513.4 million in 2020, which was mainly attributable to an increase of RMB174.1 million in payroll and other employee-related expenses for our research and development staff.

General and administrative expenses

Our general and administrative expenses increased by 499.3% from RMB133.0 million in 2019 to RMB797.0 million in 2020, which was mainly attributable to the one-off share-based compensation expenses of RMB533.1 million recognized in 2020, related to the issuance of Class B Ordinary Shares to TECHWOLF LIMITED.

Loss from operations

As a result of the foregoing, we incurred RMB944.9 million of loss from operations in 2020, as compared to a loss from operations of RMB511.9 million in 2019.

Income tax expense

We did not pay any income tax or receive any income tax benefit in 2019 and 2020, mainly because we had no taxable income in those periods.

Net loss

As a result of the foregoing, our net loss was RMB941.9 million in 2020, as compared to a net loss of RMB502.1 million in 2019.

DISCUSSION OF KEY BALANCE SHEET ITEMS

The following table sets forth selected information from our consolidated balance sheets as of the dates indicated, which have been extracted from our audited consolidated financial statements included in Appendix I to this document.

	As of December 31,				As of June 30,	
	2019	2020	2021		2022	
	RMB	RMB	RMB	US$	RMB	US$
	(in thousands)					
Total current assets	1,707,793	4,747,312	12,958,954	1,934,721	13,518,507	2,018,261
Total non-current assets	171,206	335,967	682,669	101,920	854,128	127,518
Total assets	**1,878,999**	**5,083,279**	**13,641,623**	**2,036,641**	**14,372,635**	**2,145,779**
Total current liabilities	1,007,855	1,720,023	2,784,202	415,671	2,839,444	423,918
Total non-current liabilities	37,659	76,373	183,365	27,376	166,309	24,829
Total liabilities	**1,045,514**	**1,796,396**	**2,967,567**	**443,047**	**3,005,753**	**448,747**
Total mezzanine equity	2,494,421	5,587,000	–	–	–	–
Total shareholders' (deficit)/equity	(1,660,936)	(2,300,117)	10,674,056	1,593,594	11,366,882	1,697,032
Total liabilities, mezzanine equity and shareholders' (deficit)/equity	**1,878,999**	**5,083,279**	**13,641,623**	**2,036,641**	**14,372,635**	**2,145,779**

The following table sets forth our current assets and current liabilities as of the dates indicated.

	As of December 31,				As of June 30,		As of October 31,	
	2019	2020	2021		2022		2022	
	RMB	RMB	RMB	US$	RMB	US$	RMB	US$
							(Unaudited)	
	(in thousands)							
Current assets								
Cash and cash equivalents	407,355	3,998,203	11,341,758	1,693,280	12,174,097	1,817,545	11,009,140	1,643,621
Short-term investments	1,142,015	536,401	884,996	132,126	812,225	121,262	2,786,047	415,946
Accounts receivable	1,798	6,999	1,002	150	2,013	301	7,789	1,163
Amounts due from related parties[1]	37,861	40,799	6,615	988	9,583	1,431	8,339	1,245
Prepayments and other current assets	118,764	164,910	724,583	108,177	520,589	77,722	508,626	75,936
Total current assets	**1,707,793**	**4,747,312**	**12,958,954**	**1,934,721**	**13,518,507**	**2,018,261**	**14,319,941**	**2,137,911**
Current liabilities								
Accounts payable	42,617	41,856	52,963	7,907	135,273	20,196	87,362	13,043
Deferred revenue	614,820	1,200,349	1,958,570	292,407	1,979,056	295,465	1,989,282	296,992
Other payables and accrued liabilities	293,202	418,259	645,138	96,317	578,981	86,440	725,100	108,255
Operating lease liabilities, current	57,216	59,559	127,531	19,040	146,134	21,817	155,528	23,220
Total current liabilities	**1,007,855**	**1,720,023**	**2,784,202**	**415,671**	**2,839,444**	**423,918**	**2,957,272**	**441,510**
Net current assets	**699,938**	**3,027,289**	**10,174,752**	**1,519,050**	**10,679,063**	**1,594,343**	**11,362,669**	**1,696,401**

Note:

(1) For details of the amounts due from related parties, see Note 11 of the Accountant's Report in Appendix I.

Our net current assets increased from RMB10.2 billion (US$1.5 billion) as of December 31, 2021 to RMB10.7 billion (US$1.6 billion) as of June 30, 2022, primarily due to (i) an increase of RMB832.3 million in cash and cash equivalents and (ii) a decrease of RMB66.2 million in other payables and accrued liabilities, partially offset by (i) a decrease of RMB204.0 million in prepayments and other current assets, (ii) a decrease of RMB72.8 million in short-term investments, and (iii) an increase of RMB82.3 million in accounts payable.

Our net current assets increased from RMB3.0 billion as of December 31, 2020 to RMB10.2 billion (US$1.5 billion) as of December 31, 2021, primarily due to (i) an increase of RMB7.3 billion in cash and cash equivalents, (ii) an increase of RMB559.7 million in prepayments and other current assets, and (iii) an increase of RMB348.6 million in short-term investments, partially offset by an increase of RMB758.2 million and RMB226.9 million in deferred revenue and other payables and accrued liabilities, respectively.

Our net current assets increased from RMB699.9 million as of December 31, 2019 to RMB3.0 billion as of December 31, 2020, primarily due to an increase of RMB3.6 billion in cash and cash equivalents, partially offset by (i) a decrease of RMB605.6 million in short-term investments, (ii) an increase of RMB585.5 million in deferred revenue, and (iii) an increase of RMB125.1 million in other payables and accrued liabilities.

Cash and Cash Equivalents

Cash includes cash on hand and deposits held by financial institutions that can be added to or withdrawn without limitation or restriction. Cash equivalents represent short-term, highly liquid investments that are readily convertible to known amounts of cash and with original maturities of three months or less. Our cash and cash equivalents increased from RMB407.4 million as of December 31, 2019 to RMB4.0 billion as of December 31, 2020, primarily due to cash proceeds from our Series F and Series F+ convertible redeemable preferred share financing and cash generated from our operating activities, to RMB11.3 billion (US$1.7 billion) as of December 31, 2021, primarily due to our initial public offering in the United States and cash generated from our operating activities, and further to RMB12.2 billion (US$1.8 billion) as of June 30, 2022, primarily due to cash generated from our operating activities.

Short-term Investments

Our short-term investments comprise of wealth management products issued by commercial banks and other financial institutions, which contains fixed or variable interest with original maturities within one year. These investments are stated at fair value. Changes in the fair value of our short-term investments are reflected in investment income in our consolidated financial statements. From the cash management and risk control perspective, we diversify our investment portfolios and only purchase low risk products with relatively high liquidity from reputable financial institutions. Our wealth management products are managed in accordance with our investment management policies, including that (i) the top priority of wealth management is to protect the principal part of our investments through risk management; (ii) the proposed investments must not interfere with the cash needs for our ordinary business operations; and (iii) our wealth management activities aim at maximizing returns while ensuring the safety of funds and liquidity. We have established a team of members with experience in managing investment in financial products and analyzing the investment performances and a structured, stringent internal approval mechanism in which our management team with work experience in banking or investment sectors and having extensive knowledge and experience for investing in wealth management products are involved. We have put in place robust internal control measures and procedures to manage our short-term investments, including review and reconciliation of accounts against bank statements on a monthly basis. From time to time, our Board discusses and reviews the investment status and investment strategies at the Board meetings. After the Listing, our investments in wealth management products will be subject to compliance with Chapter 14 of the Listing Rules.

Our short-term investments decreased from RMB1.1 billion as of December 31, 2019 to RMB536.4 million as of December 31, 2020, as we decreased investments in wealth management products. Our short-term investments increased from RMB536.4 million as of December 31, 2020 to RMB885.0 million (US$132.1 million) as of December 31, 2021, as we increased investments in such wealth management products. Our short-term investments slightly decreased from RMB885.0 million (US$132.1 million) as of December 31, 2021 to RMB812.2 million (US$121.3 million) as of June 30, 2022, as we decreased investments in such wealth management products.

Prepayments and Other Current Assets

Prepayments and other current assets primarily comprise prepaid advertising expenses and service fee, receivables from third-party online payment platforms, deposits, staff loans and advances and receivables related to the exercise of share-based awards. The following table sets forth our prepayments and other current assets as of the dates indicated:

	As of December 31,				As of June 30,	
	2019	2020	2021		2022	
	RMB	RMB	RMB	US$	RMB	US$
	(in thousands)					
Prepayments and other current assets						
Prepaid advertising expenses and service fee	52,165	47,398	234,490	35,008	134,821	20,128
Receivables related to the exercise of share-based awards[(1)]	–	–	289,822	43,269	166,202	24,813
Receivables from third-party on-line payment platforms	20,714	41,221	63,866	9,535	77,608	11,587
Deposits	24,455	37,780	63,814	9,527	64,646	9,651
Staff loans and advances	15,167	32,902	52,695	7,867	53,798	8,032
Others	6,263	5,609	19,896	2,971	23,514	3,511
Total	**118,764**	**164,910**	**724,583**	**108,177**	**520,589**	**77,722**

Note:

(1) Receivables related to the exercise of share-based awards mainly represented receivables from a third-party share option brokerage platform for the exercise of share-based awards due to the timing of settlement.

Our prepayments and other current assets increased from RMB118.8 million as of December 31, 2019 to RMB164.9 million as of December 31, 2020, primarily due to (i) an increase in receivables from third-party on-line payment platforms, (ii) an increase in staff loans and advances, and (iii) an increase in deposits. Our prepayments and other current assets further increased from RMB164.9 million as of December 31, 2020 to RMB724.6 million (US$108.2 million) as of December 31, 2021, primarily due to increases in receivables related to the exercise of share-based awards resulting from the timing of settlement as our employees began to exercise share-based awards after our initial public offering in the United States and prepaid advertising expenses in line with the increased advertising expenses due to enhanced brand advertising activities. Our prepayments and other current assets decreased from RMB724.6 million (US$108.2 million) as of December 31, 2021 to RMB520.6 million (US$77.7 million) as of June 30, 2022, primarily due to decreases in receivables related to the exercise of share-based awards and prepaid advertising expenses and service fee as we strategically decreased marketing activities during suspension of new user registration. As of the Latest Practicable Date, RMB382.7 million, or 73.5% of the prepayments and other current assets as of June 30, 2022 had been subsequently settled.

Accounts Payable

Accounts payable mainly represent payables for our purchase of property, equipment and software and payables for advertising expenses. Our accounts payable remained relatively stable as of December 31, 2019 and 2020, and increased to RMB53.0 million (US$7.9 million) as of December 31, 2021 as a result of increased payable for advertising expenses in line with our increased sales and marketing expenses, and further to RMB135.3 million (US$20.2 million) as of June 30, 2022 primarily resulting from that the amount for the purchase of servers in June 2022 was not due and not paid. As of the Latest Practicable Date, RMB116.1 million, or 85.8%, of accounts payable as of June 30, 2022, had been subsequently settled.

	As of December 31,				As of June 30,	
	2019	2020	2021		2022	
	RMB	RMB	RMB	US$	RMB	US$
	(in thousands)					
Accounts payable						
Payables for purchase of property, equipment and software	359	22,344	19,987	2,984	84,323	12,589
Payables for advertising expenses	40,158	16,831	30,646	4,575	39,870	5,952
Others	2,100	2,681	2,330	348	11,080	1,655
Total	**42,617**	**41,856**	**52,963**	**7,907**	**135,273**	**20,196**

Deferred Revenue

Deferred revenue represents advanced payments of our services from our customers. Substantially all deferred revenue recorded are expected to be recognized as revenues in the next twelve months. Our deferred revenue increased from RMB614.8 million as of December 31, 2019 to RMB1.2 billion as of December 31, 2020, to RMB2.0 billion (US$292.4 million) as of December 31, 2021, in line with the growth of our business, and remained relatively stable at RMB2.0 billion (US$295.5 million) as of June 30, 2022, which was negatively affected by the suspension of new user registration and the resurgence of the COVID-19 pandemic. As of the Latest Practicable Date, RMB1.3 billion, or 66.5% of the deferred revenue as of June 30, 2022 has been recognized.

Other Payables and Accrued Liabilities

Other payables and accrued liabilities primarily comprise salaries, welfare and bonus payable, tax payable, virtual accounts used in our platform and payables to shareholders. The following table sets forth our other payables and accrued liabilities as of the dates indicated:

	As of December 31,				As of June 30,	
	2019	2020	2021		2022	
	RMB	RMB	RMB	US$	RMB	US$
	(in thousands)					
Other payables and accrued liabilities						
Salaries, welfare and bonus payable	148,100	260,123	373,286	55,730	359,477	53,669
Tax payable	10,287	21,704	218,419	32,609	148,783	22,213
Virtual accounts used in our platform[(1)]	14,464	24,815	41,070	6,132	47,748	7,129
Contingent liability	–	–	–	–	14,882	2,222
Payables to shareholders	109,080	103,596	–	–	–	–
Others	11,271	8,021	12,363	1,846	8,091	1,207
Total	**293,202**	**418,259**	**645,138**	**96,317**	**578,981**	**86,440**

Note:

(1) It represents the advance payments from customers that were refundable and stored in their own virtual accounts in our platform, which they have rights to exchange for services provided on our online recruitment platform. The increase of virtual accounts used in our platform during the Track Record Period was due to the increase of advance payments customers stored into their accounts (a proportion of which is not immediately used up) and was in line with our revenue growth. We are not required to obtain any license to operate these virtual accounts.

Our other payables and accrued liabilities increased from RMB293.2 million as of December 31, 2019 to RMB418.3 million as of December 31, 2020, primarily due to an increase in salaries, welfare and bonus payable to our employees.

Our other payables and accrued liabilities increased from RMB418.3 million as of December 31, 2020 to RMB645.1 million (US$96.3 million) as of December 31, 2021, primarily due increases in individual income tax payable, enterprise income tax payable, salaries, welfare and bonus payable and virtual accounts used in our platform, partially offset by the settlement of payables to shareholders in 2021 as disclosed in the Note 8 to our consolidated financial statements included in the Accountant's Report in Appendix I to this document.

Our other payables and accrued liabilities decreased from RMB645.1 million (US$96.3 million) as of December 31, 2021 to RMB579.0 million (US$86.4 million) as of June 30, 2022, primarily to a decrease in enterprise income tax payable and value-added tax payable.

As of the Latest Practicable Date, RMB369.9 million, or 63.9%, of the other payables and accrued liabilities as of June 30, 2022, had been subsequently settled.

KEY FINANCIAL RATIOS

The following table sets forth our key financial ratios for the periods indicated:

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2019	2020	2021	2021	2022
				(unaudited)	
Gross margin (%)[(1)]	86.2	87.6	87.0	87.2	84.4
Net (loss)/income margin (%)[(2)]	(50.2)	(48.4)	(25.0)	(81.3)	3.6
Adjusted net (loss)/income margin (non-GAAP financial measure) (%)[(3)]	(46.8)	(14.6)	20.0	6.1	16.1

Notes:

(1) Gross margin equals the gross profit, calculated as total revenues minus cost of revenues, divided by total revenues for the period.

(2) Net (loss)/income margin equals net (loss)/income divided by total revenues for the period.

(3) Adjusted net (loss)/income margin (non-GAAP financial measure) equals adjusted net (loss)/income (non-GAAP financial measure) divided by total revenues for the period.

LIQUIDITY AND CAPITAL RESOURCES

During the Track Record Period and up to the Latest Practicable Date, we have financed our operations primarily through cash flows from operations and cash generated by historical equity financing activities. We completed our initial public offering in the United States in June 2021, where we raised approximately RMB6.4 billion (US$1.0 billion) in net proceeds after deducting underwriting commissions and the offering expenses payable by us. As of June 30, 2022, we had cash and cash equivalents of RMB12.2 billion (US$1.8 billion) and short-term investments of RMB812.2 million (US$121.3 million). Our cash and cash equivalents primarily consist of cash on hand, cash in bank, time deposits and highly liquid investments with a maturity of generally three months or less. Short-term investments consist of wealth management products purchased from commercial banks and other financial institutions, with a fixed or variable interest rate and a maturity of under one year.

Based on our current cash and cash equivalents, anticipated cash flows from operations, our Directors are of the view that we will have sufficient funds to meet our current and anticipated working capital requirements and capital expenditures for the twelve-month period from the date of this document.

Although we consolidate the results of the VIE, we only have access to the assets or earnings of the VIE through our contractual arrangements with the VIE and its shareholders. See "Contractual Arrangements." For restrictions and limitations on liquidity and capital resources as a result of our corporate structure, see "—Holding Company Structure."

Substantially all of our revenues have been, and we expect at least a substantial majority of them will likely continue to be, in the form of Renminbi. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior SAFE approval as long as certain routine procedural requirements are fulfilled. Therefore, our PRC subsidiaries are allowed to pay dividends in foreign currencies to us without prior SAFE approval by following certain routine procedural requirements. However, current PRC regulations permit our PRC subsidiaries to pay dividends to us only out of its accumulated profits, if any, determined in accordance with Chinese accounting standards and regulations. Each of our PRC subsidiaries is required to set aside at least 10% of its after-tax profits after making up previous years' accumulated losses each year, if any, to fund certain reserve funds until the total amount set aside reaches 50% of its registered capital. These reserves are not distributable as cash dividends. Historically, our PRC subsidiaries have not paid dividends to us, and they will not be able to pay dividends until they generate accumulated profits. Furthermore, capital account transactions, which include foreign direct investment and loans, must be approved by and/or registered with SAFE, its local branches and certain local banks.

As a Cayman Islands exempted company and offshore holding company, we are permitted under PRC laws and regulations to provide funding to our PRC subsidiaries only through loans or capital contributions, subject to the filing, approval or registration of government authorities and limits on the amount of loans. This may delay us from using the proceeds from our initial public offering in June 2021 to make loans or capital contributions to our PRC subsidiaries. See "Risk Factors—Risks Relating to Doing Business in China—PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from making loans or additional capital contributions to our PRC subsidiaries and the VIE, which could materially and adversely affect our liquidity and our ability to fund and expand our business."

We may decide to enhance our liquidity position or increase our cash reserve for future operations and investments through additional financing. The issuance and sale of additional equity would result in further dilution to our shareholders. The incurrence of indebtedness would result in increasing fixed obligations and could result in operating covenants that would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all.

Cash Flows

The following table sets forth a summary of our cash flows for the periods presented:

	For the Year Ended December 31,				For the Six Months Ended June 30,		
	2019	2020	2021		2021	2022	
	RMB	RMB	RMB	US$	RMB	RMB	US$
					(unaudited)		
				(in thousands)			
Operating cash flows before movements in working capital	(410,230)	(171,314)	1,037,484	154,892	196,863	485,178	72,435
Change in working capital	304,916	567,225	603,897	90,160	639,680	67,853	10,131
Interest paid	(349)	–	–	–	–	–	–
Income taxes paid	–	–	–	–	–	(72,083)	(10,762)
Net cash (used in)/generated from operating activities	(105,663)	395,911	1,641,381	245,052	836,543	480,948	71,804
Net cash (used in)/generated from investing activities	(1,223,803)	467,305	(601,862)	(89,856)	(167,365)	(97,909)	(14,617)
Net cash generated from/(used in) financing activities	993,475	2,882,112	6,431,263	960,162	6,412,214	(87,816)	(13,111)
Effect of exchange rate changes on cash and cash equivalents	43,113	(154,480)	(127,227)	(18,994)	9,364	537,116	80,189
Net (decrease)/increase in cash and cash equivalents	**(292,878)**	**3,590,848**	**7,343,555**	**1,096,364**	**7,090,756**	**832,339**	**124,265**
Cash and cash equivalents at the beginning of the year/period	700,233	407,355	3,998,203	596,916	3,998,203	11,341,758	1,693,280
Cash and cash equivalents at the end of the year/period	**407,355**	**3,998,203**	**11,341,758**	**1,693,280**	**11,088,959**	**12,174,097**	**1,817,545**

Operating activities

Net cash generated from operating activities in the six months ended June 30, 2022 was RMB480.9 million (US$71.8 million). The difference between this net cash generated from operating activities and the net income of RMB80.3 million (US$12.0 million) in the same period was due to adjustments for non-cash items that primarily include share-based compensation expenses of RMB283.0 million (US$42.3 million), amortization of right-of-use assets of RMB69.0 million (US$10.3 million) and depreciation and amortization expenses of RMB59.7 million (US$8.9 million), partially offset by cash used for an increase in working capital mainly resulting from a decrease of RMB64.1 million (US$9.6 million) in other payables and accrued liabilities and a decrease of RMB62.0 million (US$9.3 million) in operating lease liabilities, partially offset by a decrease of RMB87.3 million (US$13.0 million) in prepayments and other current assets.

Net cash generated from operating activities in 2021 was RMB1.6 billion (US$245.1 million). The difference between this net cash generated from operating activities and the net loss of RMB1.1 billion (US$159.9 million) in the same period was due to adjustments for non-cash items that primarily include share-based compensation expenses of RMB1.9 billion (US$287.2 million), amortization of right-of-use assets of RMB109.3 million (US$16.3 million) and depreciation and amortization expenses of RMB80.1 million (US$12.0 million), as well as cash released from a decrease in working capital mainly resulting from an increase of RMB758.2 million (US$113.2 million) in deferred revenue, reflecting the increasing scale of our business and our growing user base, and an increase of RMB329.8 million (US$49.2 million) in other payables and accrued liabilities, partially offset by an increase of RMB403.7 million (US$60.3 million) in prepayments and other current assets and a decrease of RMB99.4 million (US$14.8 million) in operating lease liabilities.

Net cash generated from operating activities in 2020 was RMB395.9 million. The difference between this net cash generated from operating activities and the net loss of RMB941.9 million in the same period was due to adjustments for non-cash items that primarily include share-based compensation expenses of RMB657.2 million, amortization of right-of-use assets of RMB66.9 million and depreciation and amortization expense of RMB41.1 million, as well as cash released from a decrease in working capital mainly resulting from an increase of RMB585.5 million in deferred revenue and an increase of RMB130.5 million in other payables and accrued liabilities, both of which reflected the increasing scale of our business and our growing user base, partially offset by a RMB71.8 million decrease in operating lease liabilities, a RMB46.1 million increase in prepayments and other current assets, and a RMB22.7 million decrease in accounts payable.

Net cash used in operating activities in 2019 was RMB105.7 million. The difference between this net cash used in operating activities and the net loss of RMB502.1 million in the same period was primarily due to adjustments for non-cash items that primarily include amortization of right-of-use assets of RMB39.5 million, share-based compensation expenses of RMB34.3 million and depreciation and amortization expenses of RMB18.1 million, as well as cash released from a decrease in working capital mainly resulting from an increase of RMB335.3 million in deferred revenue and an increase of RMB79.3 million in other payables and accrued liabilities, both of which reflected the increasing scale of our business and our growing user base, partially offset by a RMB66.8 million increase in prepayments and other current assets, a RMB42.7 million decrease in operating lease liabilities and a RMB28.2 million increase in amounts due from related parties.

Investing activities

Net cash used in investing activities in the six months ended June 30, 2022 was RMB97.9 million (US$14.6 million), primarily due to purchase of short-term investments of RMB1.5 billion (US$216.5 million) and purchase for property, equipment and software of RMB173.2 million (US$25.9 million), partially offset by proceeds from maturity of short-term investments of RMB1.5 billion (US$227.7 million).

Net cash used in investing activities in 2021 was RMB601.9 million (US$89.9 million), primarily due to purchase of short-term investments of RMB3.9 billion (US$588.2 million) and purchase for property, equipment and software of RMB259.9 million (US$38.8 million), partially offset by proceeds from maturity of short-term investments of RMB3.6 billion (US$537.2 million).

Net cash generated from investing activities in 2020 was RMB467.3 million, primarily due to proceeds from sale and maturity of short-term investments of RMB2.4 billion, partially offset by cash purchase payments for short-term investments of RMB1.8 billion and cash purchase payments for property, equipment and software of RMB138.2 million.

Net cash used in investing activities in 2019 was RMB1.2 billion, consisting primarily of cash purchase payments for short-term investments.

Financing activities

Net cash used in financing activities in the six months ended June 30, 2022 was RMB87.8 million (US$13.1 million), primarily attributable to RMB268.0 million (US$40.0 million) of repurchase of Class A Ordinary Shares, partially offset by proceeds of RMB180.2 million (US$26.9 million) from exercise of share options.

Net cash generated from financing activities in 2021 was RMB6.4 billion (US$960.2 million), primarily attributable to net proceeds from our initial public offering in the United States.

Net cash generated from financing activities in 2020 was RMB2.9 billion, consisting of net proceeds of RMB2.8 billion from issuance of convertible redeemable preferred shares, and proceeds of RMB79.0 million from issuance of our Class A Ordinary Shares.

Net cash generated from financing activities in 2019 was RMB993.5 million, primarily consisting of net proceeds from issuance of convertible redeemable preferred shares.

Cash and Asset Flows through Our Organization

KANZHUN LIMITED transfers cash to its wholly-owned Hong Kong subsidiary, by making capital contributions or providing loans, and the Hong Kong subsidiary transfer cash to the subsidiaries in China by making capital contributions or providing loans to them. Because KANZHUN LIMITED and its subsidiaries do not have equity ownership of the VIE but maintain contractual arrangements with the VIE and its registered shareholders, KANZHUN LIMITED and its subsidiaries are not able to make direct capital contribution to the VIE and its subsidiaries, but are permitted to transfer cash to the VIE by loans or by making payment to the VIE for inter-group transactions. KANZHUN LIMITED and its subsidiaries are able to receive funds from the VIE through service fees, rather than receiving dividends.

For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, KANZHUN LIMITED provided capital contributions of RMB11.8 million, RMB25.5 million, RMB74.1 million (US$11.1 million) and RMB19.2 million (US$2.9 million), respectively, to its subsidiaries; and the Hong Kong subsidiary provided capital contributions of RMB43.0 million, RMB416.3 million, RMB38.8 million (US$5.8 million) and RMB19.7 million (US$2.9 million), respectively, to its subsidiaries in China. For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, KANZHUN LIMITED provided loan financing of RMB184.5 million, RMB411.0 million, RMB16.5 million (US$2.5 million) and RMB628.1 million (US$93.8 million), respectively, to its subsidiaries; and the WFOE provided loan financing of nil, RMB260.5 million, nil and nil to the VIE, respectively. For the years ended December 31, 2019, 2020 and 2021 and the six months ended June 30, 2022, the VIE repaid loan financing of nil, nil, RMB335.0 million (US$50.0 million) and nil, respectively, to the WFOE and the Hong Kong subsidiary; and the WFOE repaid loan financing of nil, nil, RMB16.0 million (US$2.4 million) and nil, respectively, to the Hong Kong subsidiary.

The VIE may also transfer cash to our WFOE by paying service fees according to the exclusive technology and service co-operation agreement between our WFOE and the VIE. Since the VIE's accumulated deficit had not yet been fully recovered as of December 31, 2019, 2020 and 2021 and June 30, 2022, our WFOE agreed not to charge any service fees from the VIE. As a result, no payments were made by the VIE under this agreement. If there is any amount payable to our WFOE under the exclusive technology and service co-operation agreement in the future, we intend to settle it accordingly.

For the years ended December 31, 2019, 2020 and 2021 and for the six months ended June 30, 2022, no assets other than cash were transferred through our organization.

For the years ended December 31, 2019, 2020 and 2021 and for the six months ended June 30, 2022, no dividends or distributions were made to KANZHUN LIMITED by our subsidiaries. Under PRC laws and regulations, our PRC subsidiaries and the VIE are subject to certain restrictions with respect to paying dividends or otherwise transferring any of their net assets to us. Remittance of dividends by a wholly foreign-owned enterprise out of China is also subject to examination by the banks designated by SAFE. The amounts restricted include the paid-in capital and the statutory reserve funds of our PRC subsidiaries and the VIE, totaling RMB938.0 million (US$140.0 million) as of June 30, 2022. Furthermore, cash transfers from our PRC subsidiaries to entities outside of China are subject to PRC government control of currency conversion. Shortages in the availability of foreign currency may temporarily delay the ability of our PRC subsidiaries and the VIE to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations. For risks relating to the fund flows of our operations in China, see "Risk Factors —Risks Relating to Doing Business in China—We may rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could have a material and adverse effect on our ability to conduct our business."

KANZHUN LIMITED has not declared or paid any cash dividends, nor does it have any present plan to pay any cash dividends on its ordinary shares in the foreseeable future. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business. See "—Dividend Policy."

For purposes of illustration, the following discussion reflects the hypothetical taxes that might be required to be paid within the Chinese mainland, assuming that: (i) we have taxable earnings, and (ii) we determine to pay a dividend in the future:

	Tax calculation[(1)]
Hypothetical pre-tax earnings[(2)]	100.0%
Tax on earnings at statutory rate of 25%[(3)]	(25.0)%
Net earnings available for distribution	75.0%
Withholding tax at standard rate of 10%[(4)]	(7.5)%
Net distribution to Parent/Shareholders	67.5%

Notes:

(1) For purposes of this example, the tax calculation has been simplified.

(2) The hypothetical pre-tax earnings are assumed to equal taxable income in China, without considering timing differences. Under the terms of contractual agreements with the VIE, our WFOE may charge the VIE for services provided to the VIE. These service fees shall be recognized as expenses of the VIE, with a corresponding amount recorded as service income by our WFOE and eliminated in consolidation. For income tax purposes, our WFOE and the VIE file income tax returns on a separate company basis and the above service fees are tax neutral.

(3) The VIE qualifies for a 15% preferential income tax rate in China. However, such rate is subject to qualification, is temporary in nature, and may not be available in a future period when distributions are paid. For purposes of this hypothetical example, the table above reflects a maximum tax scenario under which the full statutory rate would be effective.

(4) The PRC Enterprise Income Tax Law and its implementation rules impose a withholding income tax of 10% on dividends distributed by a foreign invested enterprise, or FIE, to its immediate holding company outside of China. A lower withholding income tax rate of 5% is applied if the FIE's immediate holding company is registered in Hong Kong or other jurisdictions that have a tax treaty arrangement with China, subject to a qualification review at the time of the distribution. For purposes of this hypothetical example, the table above assumes a maximum tax scenario under which the full withholding tax would be applied.

The table above has been prepared under the assumption that all profits of the VIE will be distributed as fees to our WFOE under tax neutral contractual arrangements. If, in the future, the accumulated earnings of the VIE exceed the service fees paid to our PRC subsidiary (or if the current and contemplated fee structure between the intercompany entities is determined to be non-substantive and disallowed by Chinese tax authorities), the VIE could make a non-deductible transfer to our PRC subsidiary for the amounts of the stranded cash in the VIE. This would result in such transfer being non-deductible expenses for the VIE but still taxable income for the PRC subsidiary. Such a transfer and the related tax burdens would reduce our after-tax income to approximately 50.6% of the pre-tax income. Our management believes that there is only a remote possibility that this scenario would happen.

CAPITAL EXPENDITURES

We incurred capital expenditures of RMB64.0 million, RMB138.2 million, RMB259.9 million (US$38.8 million) and RMB173.2 million (US$25.9 million) in 2019, 2020, 2021 and the six months ended June 30, 2022. Capital expenditures primarily represent cash we paid for the purchase of servers and other electronic equipment. We will continue to incur capital expenditures to meet the expected growth of our business. We intend to fund our future capital expenditures primarily with our existing cash balance and anticipated cash generated from operating activities.

RECONCILIATION BETWEEN U.S. GAAP AND IFRS

Our consolidated financial statements are prepared in accordance with U.S. GAAP, which differs in certain respects from IFRS. The effects of material differences between our consolidated financial statements prepared under U.S. GAAP and IFRS are as follows:

	For the Year Ended December 31, 2019						
	Amounts as reported under U.S. GAAP	IFRS adjustments					Amounts as reported under IFRS
Consolidated Statements of Comprehensive Loss (Extract)		**Preferred Shares**	**Share-based compensation**	**Operating leases**	**Listing expenses**	**Expected credit loss**	
	RMB	**RMB**	**RMB**	**RMB**	**RMB**	**RMB**	**RMB**
		Note (i)	*Note (ii)*	*Note (iii)*	*Note (iv)*	*Note (v)*	
Cost of revenues	(137,812)	–	(461)	303	–	–	(137,970)
Sales and marketing expenses	(916,832)	–	(3,224)	495	–	–	(919,561)
Research and development expenses	(325,569)	–	(5,015)	885	–	–	(329,699)
General and administrative expenses	(132,999)	(26,860)	(4,026)	286	–	(105)	(163,704)
Fair value change of financial instruments	–	(1,984,892)	–	–	–	–	(1,984,892)
Financial income, net	145	–	–	(3,021)	–	–	(2,876)
Net loss	**(502,055)**	**(2,011,752)**	**(12,726)**	**(1,052)**	**–**	**(105)**	**(2,527,690)**
Accretion on convertible redeemable preferred shares to redemption value	(232,319)	232,319	–	–	–	–	–
Net loss attributable to ordinary shareholders	**(734,374)**	**(1,779,433)**	**(12,726)**	**(1,052)**	**–**	**(105)**	**(2,527,690)**
Other comprehensive income/(loss)							
Foreign currency translation adjustments	25,354	(83,294)	–	–	–	–	(57,940)
Effects of changes in credit risk for financial liabilities designated as at fair value through profit or loss	–	(26,318)	–	–	–	–	(26,318)

Consolidated Statements of Comprehensive Loss (Extract)	For the Year Ended December 31, 2020						
	Amounts as reported under U.S. GAAP	IFRS adjustments					Amounts as reported under IFRS
		Preferred Shares	Share-based compensation	Operating leases	Listing expenses	Expected credit loss	
	RMB	RMB	RMB	RMB	RMB	RMB	RMB
		Note (i)	*Note (ii)*	*Note (iii)*	*Note (iv)*	*Note (v)*	
Cost of revenues	(240,211)	–	(697)	527	–	–	(240,381)
Sales and marketing expenses	(1,347,532)	–	307	1,365	–	–	(1,345,860)
Research and development expenses	(513,362)	–	(14,747)	1,626	–	–	(526,483)
General and administrative expenses	(797,008)	(20,166)	(18,439)	419	–	(142)	(835,336)
Fair value change of financial instruments	–	(8,310,573)	–	–	–	–	(8,310,573)
Financial income, net	3,098	–	–	(4,760)	–	–	(1,662)
Net loss	**(941,895)**	**(8,330,739)**	**(33,576)**	**(823)**	**–**	**(142)**	**(9,307,175)**
Accretion on convertible redeemable preferred shares to redemption value	(283,981)	283,981	–	–	–	–	–
Net loss attributable to ordinary shareholders	**(1,225,876)**	**(8,046,758)**	**(33,576)**	**(823)**	**–**	**(142)**	**(9,307,175)**
Other comprehensive (loss)/income							
Foreign currency translation adjustments	(149,539)	900,324	–	–	–	–	750,785
Effects of changes in credit risk for financial liabilities designated as at fair value through profit or loss	–	(40,799)	–	–	–	–	(40,799)

Consolidated Statements of Comprehensive Loss (Extract)	For the Year Ended December 31, 2021						
	Amounts as reported under U.S. GAAP	IFRS adjustments					Amounts as reported under IFRS
		Preferred Shares	Share-based compensation	Operating leases	Listing expenses	Expected credit loss	
	RMB	RMB	RMB	RMB	RMB	RMB	RMB
		Note (i)	*Note (ii)*	*Note (iii)*	*Note (iv)*	*Note (v)*	
Cost of revenues	(554,648)	–	(22,693)	1,589	–	–	(575,752)
Sales and marketing expenses	(1,942,670)	–	(26,597)	4,439	–	–	(1,964,828)
Research and development expenses	(821,984)	–	(50,491)	1,408	–	–	(871,067)
General and administrative expenses	(1,991,123)	–	(51,079)	309	(22,592)	(242)	(2,064,727)
Fair value change of financial instruments	–	(18,098,803)	–	–	–	–	(18,098,803)
Financial income, net	9,735	–	–	(10,469)	–	–	(734)
Net loss	**(1,071,074)**	**(18,098,803)**	**(150,860)**	**(2,724)**	**(22,592)**	**(242)**	**(19,346,295)**
Accretion on convertible redeemable preferred shares to redemption value	(164,065)	164,065	–	–	–	–	–
Net loss attributable to ordinary shareholders	**(1,235,139)**	**(17,934,738)**	**(150,860)**	**(2,724)**	**(22,592)**	**(242)**	**(19,346,295)**
Other comprehensive (loss)/income							
Foreign currency translation adjustments	(127,378)	588,457	–	–	–	–	461,079
Effects of changes in credit risk for financial liabilities designated as at fair value through profit or loss	–	(634)	–	–	–	–	(634)

For the Six Months Ended June 30, 2021 (unaudited)

Consolidated Statements of Comprehensive Loss (Extract)	Amounts as reported under U.S. GAAP	IFRS adjustments					Amounts as reported under IFRS
		Preferred Shares	Share-based compensation	Operating leases	Listing Expenses	Expected credit loss	
	RMB	RMB	RMB	RMB	RMB	RMB	RMB
		Note (i)	*Note (ii)*	*Note (iii)*	*Note (iv)*	*Note (v)*	
Cost of revenues	(250,029)	–	(9,491)	654	–	–	(258,866)
Sales and marketing expenses	(1,152,780)	–	(7,739)	1,917	–	–	(1,158,602)
Research and development expenses	(413,728)	–	(13,014)	607	–	–	(426,135)
General and administrative expenses	(1,748,612)	–	(17,041)	129	(22,592)	(120)	(1,788,236)
Fair value change of financial instruments	–	(18,098,803)	–	–	–	–	(18,098,803)
Financial income, net	4,017	–	–	(4,204)	–	–	(187)
Net loss	**(1,590,312)**	**(18,098,803)**	**(47,285)**	**(897)**	**(22,592)**	**(120)**	**(19,760,009)**
Accretion on convertible redeemable preferred shares to redemption value	(164,065)	164,065	–	–	–	–	–
Net loss attributable to ordinary shareholders	**(1,754,377)**	**(17,934,738)**	**(47,285)**	**(897)**	**(22,592)**	**(120)**	**(19,760,009)**
Other comprehensive income/(loss)							
Foreign currency translation adjustments	7,884	588,457	–	–	–	–	596,341
Effects of changes in credit risk for financial liabilities designated as at fair value through profit or loss	–	(634)	–	–	–	–	(634)

For the Six Months Ended June 30, 2022

Consolidated Statements of Comprehensive (Loss)/Income (Extract)	Amounts as reported under U.S. GAAP	IFRS adjustments					Amounts as reported under IFRS
		Preferred Shares	Share-based compensation	Operating leases	Listing expenses	Expected credit loss	
	RMB	RMB	RMB	RMB	RMB	RMB	RMB
		Note (i)	*Note (ii)*	*Note (iii)*	*Note (iv)*	*Note (v)*	
Cost of revenues	(351,578)	–	(11,743)	1,011	–	–	(362,310)
Sales and marketing expenses	(921,900)	–	(43,206)	2,993	–	–	(962,113)
Research and development expenses	(598,425)	–	(75,707)	908	–	–	(673,224)
General and administrative expenses	(316,035)	–	(42,804)	626	–	(111)	(358,324)
Financial income, net	24,185	–	–	(7,564)	–	–	16,621
Net income/(loss)	**80,321**	**–**	**(173,460)**	**(2,026)**	**–**	**(111)**	**(95,276)**
Net income/(loss) attributable to ordinary shareholders	**80,321**	**–**	**(173,460)**	**(2,026)**	**–**	**(111)**	**(95,276)**

Consolidated Balance Sheets (Extract)	As of December 31, 2019 Amounts as reported under U.S. GAAP	IFRS adjustments Preferred Shares	Share-based compensation	Operating leases	Listing expenses	Expected credit loss	Amounts as reported under IFRS
	RMB	RMB	RMB	RMB	RMB	RMB	RMB
		Note (i)	*Note (ii)*	*Note (iii)*	*Note (iv)*	*Note (v)*	
Prepayments and other current assets	118,764	109,080	–	–	–	(223)	227,621
Right-of-use assets, net	98,138	–	–	(1,052)	–	–	97,086
Total assets	**1,878,999**	**109,080**	**–**	**(1,052)**	**–**	**(223)**	**1,986,804**
Financial liabilities designated as at fair value through profit or loss	–	5,661,479	–	–	–	–	5,661,479
Total liabilities	**1,045,514**	**5,661,479**	**–**	**–**	**–**	**–**	**6,706,993**
Convertible redeemable preferred shares	2,603,501	(2,603,501)	–	–	–	–	–
Subscription receivables from shareholders	(109,080)	109,080	–	–	–	–	–
Total mezzanine equity	**2,494,421**	**(2,494,421)**	**–**	**–**	**–**	**–**	**–**
Additional paid-in capital	–	58,337	22,128	–	–	–	80,465
Accumulated other comprehensive income/(loss)	19,152	(200,552)	–	–	–	–	(181,400)
Accumulated deficit	(1,680,150)	(2,915,763)	(22,128)	(1,052)	–	(223)	(4,619,316)
Total shareholders' deficit	**(1,660,936)**	**(3,057,978)**	**–**	**(1,052)**	**–**	**(223)**	**(4,720,189)**

Consolidated Balance Sheets (Extract)	As of December 31, 2020 Amounts as reported under U.S. GAAP	IFRS adjustments Preferred Shares	Share-based compensation	Operating leases	Listing expenses	Expected credit loss	Amounts as reported under IFRS
	RMB	RMB	RMB	RMB	RMB	RMB	RMB
		Note (i)	*Note (ii)*	*Note (iii)*	*Note (iv)*	*Note (v)*	
Prepayments and other current assets	164,910	103,596	–	–	–	(365)	268,141
Right-of-use assets, net	144,063	–	–	(1,875)	–	–	142,188
Total assets	**5,083,279**	**103,596**	**–**	**(1,875)**	**–**	**(365)**	**5,184,635**
Financial liabilities designated as at fair value through profit or loss	–	15,935,807	–	–	–	–	15,935,807
Total liabilities	**1,796,396**	**15,935,807**	**–**	**–**	**–**	**–**	**17,732,203**
Convertible redeemable preferred shares	5,690,596	(5,690,596)	–	–	–	–	–
Subscription receivables from shareholders	(103,596)	103,596	–	–	–	–	–
Total mezzanine equity	**5,587,000**	**(5,587,000)**	**–**	**–**	**–**	**–**	**–**
Additional paid-in capital	452,234	342,318	55,704	–	–	–	850,256
Accumulated other comprehensive (loss)/income	(130,387)	658,973	–	–	–	–	528,586
Accumulated deficit	(2,622,045)	(11,246,502)	(55,704)	(1,875)	–	(365)	(13,926,491)
Total shareholders' deficit	**(2,300,117)**	**(10,245,211)**	**–**	**(1,875)**	**–**	**(365)**	**(12,547,568)**

Consolidated Balance Sheets (Extract)	As of December 31, 2021						
	Amounts as reported under U.S. GAAP	IFRS adjustments					Amounts as reported under IFRS
		Preferred Shares	Share-based compensation	Operating leases	Listing expenses	Expected credit loss	
	RMB	RMB	RMB	RMB	RMB	RMB	RMB
		Note (i)	*Note (ii)*	*Note (iii)*	*Note (iv)*	*Note (v)*	
Prepayments and other current assets	724,583	–	–	–	–	(607)	723,976
Right-of-use assets, net	309,085	–	–	(4,599)	–	–	304,486
Total assets	**13,641,623**	**–**	**–**	**(4,599)**	**–**	**(607)**	**13,636,417**
Additional paid-in capital	14,624,386	28,098,509	206,564	–	22,592	–	42,952,051
Accumulated other comprehensive (loss)/income	(257,765)	1,246,796	–	–	–	–	989,031
Accumulated deficit	(3,693,119)	(29,345,305)	(206,564)	(4,599)	(22,592)	(607)	(33,272,786)
Total shareholders' equity	**10,674,056**	**–**	**–**	**(4,599)**	**–**	**(607)**	**10,668,850**

Consolidated Balance Sheets (Extract)	As of June 30, 2022						
	Amounts as reported under U.S. GAAP	IFRS adjustments					Amounts as reported under IFRS
		Preferred Shares	Share-based compensation	Operating leases	Listing expenses	Expected credit loss	
	RMB	RMB	RMB	RMB	RMB	RMB	RMB
		Note (i)	*Note (ii)*	*Note (iii)*	*Note (iv)*	*Note (v)*	
Prepayments and other current assets	520,589	–	–	–	–	(718)	519,871
Right-of-use assets, net	303,609	–	–	(6,625)	–	–	296,984
Total assets	**14,372,635**	**–**	**–**	**(6,625)**	**–**	**(718)**	**14,365,292**
Additional paid-in capital	14,965,856	28,098,509	380,024	–	22,592	–	43,466,981
Accumulated other comprehensive income	281,247	1,246,796	–	–	–	–	1,528,043
Accumulated deficit	(3,612,798)	(29,345,305)	(380,024)	(6,625)	(22,592)	(718)	(33,368,062)
Total shareholders' equity	**11,366,882**	**–**	**–**	**(6,625)**	**–**	**(718)**	**11,359,539**

(i) Preferred Shares

Under U.S. GAAP, we classified the Preferred Shares as mezzanine equity because they were redeemable at the holders' option upon the occurrence of certain deemed liquidation events and certain events outside of our control. The Preferred Shares were recorded initially at fair value, net of issuance cost. The accretion to the respective redemption value of the Preferred Shares were recognized over the period starting from issuance date to the earliest redemption date.

Under IFRS, the Preferred Shares that were contingently redeemable at the holders' option were designated as financial liabilities at fair value through profit or loss, which were measured at fair value with the issuance cost recorded in general and administrative expenses. The amount of changes in the fair value of the financial liabilities attributable to changes in the credit risk of the financial liabilities was presented in other comprehensive income/(loss) and the remaining amount of changes in the fair value was presented in profit or loss.

All the Preferred Shares were converted into Class A Ordinary Shares upon the completion of our IPO in the United States in June 2021. Consequently, there was no such reconciliation item in classification and measurement of Preferred Shares between U.S. GAAP and IFRS subsequently.

(ii) Share-based compensation

Under U.S. GAAP, a performance target that may be met during or after the requisite service period is complete, such as the fulfilment of a qualified successful IPO, is a performance vesting condition. The fair value of the award should not incorporate the vesting probability of a performance condition, but rather should be recognized only if the performance condition is probable of being achieved. The cumulative share-based compensation expenses for the share options that have satisfied the service condition were recorded upon the completion of our IPO in the United States in June 2021. Under IFRS, the cumulative share-based compensation expenses for the share options that have satisfied the service condition were recorded when the performance condition related to the successful IPO became more likely than not to be achieved rather than being actually completed. Thus, share-based compensation expenses were recorded earlier under IFRS than under U.S. GAAP.

For share options and RSUs granted with service condition, the share-based compensation expenses were recognized over the vesting period using straight-line method under U.S. GAAP while the graded vesting method must be applied under IFRS.

Additionally, under U.S. GAAP, it is allowed to make an entity-wide accounting policy election to account for award forfeitures as they occur or by estimating expected forfeitures as compensation cost is recognized, and we have chosen to account for forfeitures when they occur. Under IFRS, a similar policy election isn't allowed; forfeitures must be estimated and share-based compensation expenses were recognized net of estimated forfeitures.

(iii) Operating leases

Under U.S. GAAP, for operating leases, the amortization of the right-of-use assets and interest expenses related to the lease liabilities were recorded together as lease expenses, which resulted in a straight-line recognition effect over the respective lease terms.

Under IFRS, the amortization of the right-of-use assets was recognized on a straight-line basis while interest expenses related to the lease liabilities were recorded on the basis that the lease liabilities were measured at amortized cost with more expenses recognized in earlier years of each lease term. Additionally, the amortization of the right-of use assets and interest expenses related to the lease liabilities were presented in separate line items.

(iv) Listing expenses

Under U.S. GAAP, specific incremental issuance cost directly attributable to the offering of equity securities may be deferred and capitalized against the gross proceeds of the offering and presented in the shareholders' equity as a deduction from the proceeds.

Under IFRS, only those listing expenses considered directly attributable to the issuance of new shares to investors can be capitalized. Those expenses considered directly attributable to the listing of existing shares on a stock exchange were not qualified for capitalization and expensed as incurred instead.

(v) Expected credit loss

Under U.S. GAAP, we will adopt ASC Topic 326 starting from January 1, 2023. Before the adoption of ASC Topic 326, impairment losses for financial assets, mainly including other receivables, are not recognized until it is probable that a loss would be incurred based on events and conditions existing at the date of the financial statements.

Under IFRS, IFRS 9 were required to be adopted starting from January 1, 2018, which introduced an expected credit loss ("ECL") model for financial assets. Upon initial recognition, only the portion of lifetime ECL that results from default events that were possible within the next 12 months was recorded ("stage 1"). Lifetime expected credit losses were subsequently recorded only if there was a significant increase in the credit risk of the asset ("stage 2"). Once there was objective evidence of impairment ("stage 3"), lifetime ECL continued to be recognized, but interest revenue was calculated on the net carrying amount (that is, amortized cost net of the credit allowance).

For more details about reconciliation between U.S. GAAP and IFRS during the Track Record Period, see Note 24 to the Accountant's Report in Appendix I.

INDEBTEDNESS

The following table sets forth a breakdown of our financial indebtedness as of the dates indicated.

	As of December 31,				As of June 30,		As of October 31,	
	2019	2020	2021		2022		2022	
	RMB	RMB	RMB	US$	RMB	US$	RMB	US$
							(Unaudited)	
	(in thousands)							
Current								
Operating lease liabilities, current	57,216	59,559	127,531	19,040	146,134	21,817	155,528	23,220
Non-current								
Operating lease liabilities, non-current	37,659	76,373	183,365	27,376	166,309	24,829	161,547	24,118
Total	**94,875**	**135,932**	**310,896**	**46,416**	**312,443**	**46,646**	**317,075**	**47,338**

As of June 30, 2022 and October 31, 2022, the total amount of our indebtedness was RMB312.4 million (US$46.6 million) and RMB317.1 million (US$47.3 million), respectively, representing operating lease liabilities, which were primarily for the lease of our offices.

Except as discussed above, as of October 31, 2022, we did not have any material mortgages, charges, debentures, loan capital, debt securities, loans, bank overdrafts or other similar indebtedness, finance lease or hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits, which are either guaranteed, unguaranteed, secured or unsecured, or guarantees or other contingent liabilities.

CONTINGENCIES OR GUARANTEES

We and certain of our officers and directors have been named as defendants in a putative securities class action filed on July 12, 2021 in the U.S. District Court for the District of New Jersey, captioned *Bell v. Kanzhun Limited et al*, No. 2:21-cv-13543. See "Business—Legal Proceedings and Compliance" for more details. In September 2022, the parties reached a tentative agreement in principle to settle the case. Accordingly, we have recorded a contingent liability of RMB14.9 million as of June 30, 2022. On November 10, 2022, the Court granted preliminary approval of the parties' settlement agreement, pursuant to which, without any admission or finding of any wrongdoing on the part of any of the Defendants, the parties agreed that, in consideration of Kanzhun's payment of US$2.25 million, all actual and potential claims and causes of action that have been or could have been alleged against Kanzhun and the individual defendant are resolved and discharged and precluded from being raised again in any future action. The Company believes the settlement does not and will not have any material impact on the Company's financial condition or business operations, and the contingent liability of RMB14.9 million is adequate for the settlement.

Except as disclosed above, we did not have other material contingencies or guarantees as of December 31, 2019, 2020, 2021, June 30, 2022 and October 31, 2022.

MATERIAL CASH REQUIREMENTS

The following table sets forth our contractual obligations as of June 30, 2022.

	Total	Payment Due by Period Less than 1 year	1–3 years	3–5 years	More than 5 years
	(in RMB thousands)				
Operating lease obligations	335,295	149,413	140,851	45,031	–
Advertising commitments	110,261	104,012	6,249	–	–

Other than as shown above, we did not have any significant capital and other commitments, long-term obligations or guarantees as of June 30, 2022. We do not have any unutilized banking facilities as of the Latest Practicable Date.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any unconsolidated third parties. In addition, we have not entered into any derivative contracts that are indexed to our shares and classified as shareholders' equity or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. Moreover, we do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or product development services with us.

MATERIAL RELATED PARTY TRANSACTIONS

We had the following material related party transactions during the Track Record Period.

	For the Year Ended December 31,			For the Six Months Ended June 30,	
	2019	2020	2021	2021	2022
	RMB	RMB	RMB	RMB	RMB
				(Unaudited)	
			(in thousands)		
Cloud services from Tencent Group	2,063	6,109	18,119	7,715	11,402
On-line payment platform clearing services from Tencent Group	836	1,886	5,464	2,887	2,355
Cash advance to Mr. Peng Zhao	24,930	–	–	–	–
Cash advance to individual executive officer	5,093	–	–	–	–
Total	**32,922**	**7,995**	**23,583**	**10,602**	**13,757**

Our Directors believe that our transactions with related parties during the Track Record Period were conducted on an arm's length basis, and they did not distort our results of operations or make our historical results not reflective of our future performance.

For more details about our related party transactions during the Track Record Period, see Note 11 to our consolidated financial statements included in the Accountant's Report in Appendix I to this document.

HOLDING COMPANY STRUCTURE

KANZHUN LIMITED is a holding company with no material operations of its own. We conduct our operations primarily through our PRC subsidiaries and the VIE in China. As a result, KANZHUN LIMITED's ability to pay dividends depends upon dividends paid by our PRC subsidiaries. If our existing PRC subsidiaries or any newly formed ones incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us. In addition, our wholly foreign-owned subsidiaries in China are permitted to pay dividends to us only out of its retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Under PRC law, each of our PRC subsidiaries and the VIE is required to set aside at least 10% of its after-tax profits each year, after making up previous years' accumulated losses, if any, to fund certain statutory reserve funds until such reserve funds reach 50% of their registered capital. In addition, our wholly foreign-owned subsidiaries in China and the VIE may allocate a portion of its after-tax profits based on PRC accounting standards to a surplus fund at their discretion. The statutory reserve funds and the discretionary funds are not distributable as cash dividends. Remittance of dividends by a wholly foreign-owned company out of China is subject to examination by the banks designated by SAFE. Our PRC subsidiaries have not paid dividends and will not be able to pay dividends until they generate accumulated profits and meet the requirements for statutory reserve funds.

INFLATION

To date, inflation in China has not materially affected our results of operations. According to the National Bureau of Statistics of China, the year-over-year percent changes in the consumer price index for December 2019, 2020 and 2021 and June 2022 were increases of 4.5%, 0.2%, 1.5% and 2.5%, respectively. Although we have not been materially affected by inflation in the past, we may be affected if China experiences higher rates of inflation in the future.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign exchange risk

Substantially all of our revenues and the majority of our expenses are denominated in RMB. The majority of our cash and cash equivalents are denominated in U.S. dollars. We have not used any derivative financial instruments to hedge exposure to such risk. However, we monitor our currency risk exposure by periodically reviewing foreign currency exchange rates and will consider hedging significant foreign currency exposure should the need arise. Although our exposure to foreign exchange risks should be limited in general, the value of your investment in the ADSs and/or Class A Ordinary Shares will be affected by the exchange rate between U.S. dollar and RMB because the value of our business is effectively denominated in RMB, while the ADSs will be traded in U.S. dollars.

The value of the Renminbi against the U.S. dollar and other currencies is affected by changes in China's political and economic conditions and by China's foreign exchange policies, among other things. In July 2005, the PRC government changed its decades-old policy of pegging the value of the Renminbi to the U.S. dollar, and the Renminbi appreciated more than 20% against the U.S. dollar over the following three years. Between July 2008 and June 2010, this appreciation subsided and the exchange rate between the Renminbi and the U.S. dollar remained within a narrow band. Since June 2010, the Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. For example, the Renminbi depreciated from a rate of RMB6.3726 to US$1.00 as of December 30, 2021 to a rate of RMB7.1266 as of September 23, 2022, both set forth in the H.10 statistical release of The Board of Governors of the Federal Reserve Board. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the Renminbi and the U.S. dollar in the future.

To the extent that we need to convert U.S. dollars into RMB for our operations, appreciation of the RMB against the U.S. dollar would have an adverse effect on the RMB amount we receive from the conversion. Conversely, if we decide to convert RMB into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs or for other business purposes, appreciation of the U.S. dollar against the RMB would have a negative effect on the U.S. dollar amounts available to us.

Interest rate risk

Our exposure to interest rate risk primarily relates to the interest income generated by excess cash, which is mostly held in interest-bearing bank deposits and wealth management products. Interest-earning instruments carry a degree of interest rate risk. We have not been exposed to material risks due to changes in market interest rates, and we have not used any derivative financial instruments to manage our interest risk exposure.

We may invest the net proceeds that we receive from our offerings in interest-earning instruments. Investments in both fixed-rate and floating rate interest-earning instruments carry a degree of interest rate risk. Fixed-rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating-rate securities may produce less income than expected if interest rates fall.

DIVIDEND POLICY

We are a holding company incorporated under the laws of the Cayman Islands. Our board of directors has complete discretion as to whether to distribute dividends, subject to certain requirements of Cayman Islands law. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our directors. Under Cayman Islands law, a Cayman Islands company may pay a dividend out of either profit or share premium account, provided that in no circumstances may a dividend be paid out of the share premium account if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business immediately following the date on which the dividend is proposed to be paid. Even if our board of directors decides to declare and pay dividends, the timing, amount and form of future dividends, if any, will depend on our future results of operations and cash flow, our capital requirements and surplus, the amount of distributions, if any, received by us from our subsidiaries, our financial condition, contractual restrictions and other factors deemed relevant by our board of directors. PRC laws require that dividends be paid only out of the profit for the year calculated according to PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including U.S. GAAP. PRC laws also require foreign-invested enterprises to set aside at least 10% of its after-tax profits, if any, to fund its statutory reserves, which are not available for distribution as cash dividends. Dividend distribution to our shareholders is recognized as a liability in the period in which the dividends are approved by our shareholders or Directors, where appropriate. During the Track Record Period, no dividends have been paid or declared by us.

DISTRIBUTABLE RESERVE

As of June 30, 2022, we did not have any distributable reserves.

LISTING EXPENSE

We expect to incur listing expenses of approximately RMB66.4 million (HK$73.8 million. These listing expenses mainly comprise professional fees paid and payable to the professional parties.

As of June 30, 2022, there were no listing expenses incurred by us in relation to the Listing. Listing expenses are recognised in our consolidated statements of comprehensive income/(loss) as and when they are incurred.

RECENT ACCOUNTING PRONOUNCEMENTS

A list of recently issued accounting pronouncements that are relevant to us is included in Note 2 of the Accountant's Report in Appendix I.

UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma adjusted net tangible assets prepared in accordance with Rule 4.29 of the Hong Kong Listing Rules are set out below for the purpose of illustrating the effect of the Listing on the unaudited consolidated net tangible assets attributable to the ordinary shareholders of the Company as of September 30, 2022 as if the Listing had taken place on that date.

This unaudited pro forma adjusted net tangible assets has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group, had the Listing been completed as of September 30, 2022 or at any future dates. It is prepared based on the unaudited consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company as of September 30, 2022 as shown in the Unaudited Interim Condensed Financial Information of the Group, the text of which is set out in Appendix IIB to this document, and adjusted as described below.

	Unaudited consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company as of September 30, 2022	Estimated listing expenses	Unaudited pro forma adjusted net tangible assets of the Group attributable to ordinary shareholders of the Company as of September 30, 2022	Unaudited pro forma adjusted net tangible assets per Share	Unaudited pro forma adjusted net tangible assets per ADS	Unaudited pro forma adjusted net tangible assets per Share	Unaudited pro forma adjusted net tangible assets per ADS
	RMB'000	RMB'000	RMB'000	RMB	RMB	HK$	HK$
	(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 4)*	*(Note 5)*	*(Note 5)*
Based on 872,698,966 Shares *(Note 3)*	12,308,506	(66,393)	12,242,113	14.03	28.06	15.59	31.19

Notes:

(1) The unaudited consolidated net tangible assets of the Group attributable to ordinary shareholders of the Company as of September 30, 2022 is derived from the Unaudited Interim Condensed Financial Information of the Group as set out in Appendix IIB to this document, which is based on the unaudited consolidated net assets of the Group attributable to ordinary shareholders of the Company as of September 30, 2022 of RMB12,308,896,000 with an adjustment for net intangible assets as of September 30, 2022 of RMB390,000.

(2) In relation to the Introduction, the Company expects to incur listing expenses in an aggregate amount of approximately RMB66.4 million, which mainly include professional fees to the Joint Sponsors, legal advisers, the legal advisers to the Joint Sponsors and the Reporting Accountant.

(3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 872,698,966 Shares were in issue, assuming that the Listing had been completed on September 30, 2022 and without taking into account 17,454,538 Class A Ordinary Shares issued and reserved for future issuance upon the exercising or vesting of awards granted under the Share Incentive Plans and any issuance or repurchase of Shares and/or ADSs by the Company.

(4) The unaudited pro forma adjusted net tangible assets per ADS is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that one ADS represents two Shares.

(5) For the purpose of this unaudited pro forma adjusted net tangible assets, the balances stated in Renminbi are converted into Hong Kong dollars at the rate of RMB1.0000 to HK$1.1116. No representation is made that Renminbi amounts have been, could have been or may be converted into Hong Kong dollars, or vice versa, at that rate.

(6) No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to September 30, 2022.

NO MATERIAL ADVERSE CHANGE

After due and careful consideration, our directors confirm that, up to the Latest Practicable Date, there had not been any material adverse change in our financial or trading position or prospects since June 30, 2022, and there is no event since June 30, 2022 which would materially affect the information shown in the Accountant's Report in Appendix I to this document.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE LISTING RULES

Our Directors confirm that, as of the Latest Practicable Date, there was no circumstance that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.